

Question-26

Mr. Qateel, a resident individual, is engaged in the manufacturing of various consumer goods under the name and style Qateel Enterprises (QE). The following information has been extracted from the records of QE for the financial year ended 30 June 2021.

	Rupees
Total turnover	28,500,000
Cost of sales	(26,155,000)
Gross profit	2,345,000
Operating expenses	(4,500,000)
Operating loss	(2,155,000)
Finance charges on lease of machinery	(35,703)
Other income	5,000,000
Profit before tax	2,809,297

Additional information:

- (i) Cost of sales includes:
 - Rs. 45,000 paid as fine for violation of contract with a customer for delay in supply of goods.
 - accounting depreciation of Rs. 2,498,940 (including depreciation on leased assets).
- (ii) Operating expenses include:
 - Rs. 450,000 paid for renewal of a licence for fifteen years.
 - vehicle tax paid in cash amounting to Rs. 255,000 for eight office cars.
 - Rs. 185,000 paid as security deposit to K-Electric (KE) for replacement of transformer at the factory.
 - Rs. 300,000 collected by KE as advance tax through monthly electricity bills.
 - cash donation to poor families amounting to Rs. 64,600 and Zakat of Rs. 1,401,060 paid under Zakat & Ushr Ordinance.
 - penalty of Rs. 25,000 imposed by the Commissioner Inland Revenue for late filing of annual return of income for the tax year 2020.
 - entertainment expenditure of Rs. 128,000 incurred on arrival of foreign customers for business purposes.
- (iii) Other income includes:
 - dividend of Rs. 580,000 received from listed companies. The amount is net of income tax at the rate of 15% and Zakat of Rs. 100,000 deducted under the Zakat and Usher Ordinance, 1980.
 - Capital gain of Rs. 1,200,000 from sale of shares of a private limited company. Shares were acquired on 1 August 2016.
- (iv) On 30 June 2021, leased machinery was transferred to Qateel on maturity of lease. The leasing company was asked to adjust the amount of security deposit against the residual value of Rs. 100,000. The date of commencement of lease was 1 July 2016. Lease rentals paid during the year amounted to Rs. 270,000. On the date of maturity, the accounting written down value and market value of the machinery was Rs. 590,490 and Rs. 800,000 respectively.
- (v) During the year, a warehouse was constructed for storage of goods at a cost of Rs. 4,888,000. No accounting depreciation has been recorded on it.
- (vi) Tax depreciation for the tax year 2021 without considering the effect of para (iv) and (v) above, amounted to Rs. 1,560,000.
- (vii) Advance income tax paid during the year amounted to Rs. 480,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and net tax payable by or refundable to QE for the year ended 30 June 2021. (18)

Note:

- Ignore minimum tax under section 113
- Show all the relevant exemptions, exclusions and disallowances

Chapter 19: Numericals Income Tax

Question-27
Ahmer Ghazi has been working as director production in Delta Pakistan Limited (DPL) for last three years. He received following monthly emoluments from DPL during the year ended 30 June 20X8:

	Rupees
Basic salary	650,000
House rent allowance	95,000
Medical allowance	70,000

In addition to the above, the employer also provided following to Ahmer Ghazi:

- Health insurance for him and his family members. The amount of annual premium paid by DPL was Rs.50,000.
- Return air ticket for Dubai worth Rs. 180,000 for him and his family as a reward for achieving the production target.
- Loan of Rs. 5 million was given to him on 1 August 20X7 at 6% per annum.
- Withholding tax of Rs. 1,244,000 deducted from his salary was reimbursed to him.

Other information relevant to the tax year 20X8 is as under:

- Under an employee share scheme 10,000 shares of DPL were allotted to Ahmer Ghazi on 1 January 20X6. According to the scheme, he was not allowed to sell/transfer the shares up to 31 December 20X6. On 1 April 20X8, he sold 6,000 shares of DPL for Rs. 33 per share. The face value of each share is Rs. 10. Fair market values of each share on different dates were as follows:
 - Rs. 20 per share on 1 January 20X6
 - Rs. 23 per share on 1 January 20X7
 - Rs. 29 per share on 30 June 20X8
- On 30 October 20X7 Ahmer Ghazi let out his apartment at a monthly rent of Rs. 30,000 to his friend. The fair market rent of the apartment is Rs. 40,000 per month.
- He is a part time singer and earned Rs. 225,000 by allowing a private TV channel to use his song in a TV drama.
- He purchased Sukuks of a listed company amounting to Rs. 1,400,000 as an original allottee, on 30 June 20X8.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the following for the year ended 30 June 20X8:

- Total income
- Taxable income
- Net tax payable or refundable

Note: ■ Show all the relevant exemptions, exclusions and disallowances.

(Q.1 September 2018)

Question-28
Saleem is a resident taxpayer and runs a fitness centre in DHA Karachi. He files his return of income regularly. Following information pertains to his business for the tax year 2021:

- Accounting profit before tax amounted to Rs. 2,162,500.
- Administrative expenses include annual rent of the premises used for fitness centre amounting to Rs. 1,560,000. Withholding tax of Rs. 144,000 was deducted from the rent payment but was not deposited in the government treasury.
- A passenger transport vehicle used for pick and drop of employees of fitness centre was disposed of for Rs. 3,500,000. The vehicle was purchased for Rs. 4,500,000 in tax year 2020. No accounting depreciation was provided during the year 2021. Accounting gain of Rs. 12,500 has been recorded in the profit or loss account.
- On 1 July 2020, a car was acquired on finance lease for Rs. 3,000,000. The vehicle has been used 70% for business purposes and 30% for Saleem's personal use. Accounting depreciation of Rs. 600,000 and financial charges of Rs. 462,000 were recorded in the profit or loss account. Lease rentals paid during the year amounted to Rs. 857,000.
- During the year, Saleem recorded gain of Rs. 50,000 on disposal of shares. Details are asunder:

Name of investee company	Sold on	Purchased On	Gain/(loss) on disposal (Rs.)
Sun (Private) Limited	1 Aug 2020	1 Sep 2015	500,000
Moon Limited – a listed company	15 Sep 2020	1 Jan 2017	(700,000)
Planet Limited - a listed company	1 Feb 2021	1 Jan 2018	250,000
			50,000

Required:

Compute Saleem's taxable income under appropriate head of income and tax liability for the tax year 2021. (12)
(Q.5 September 2018)

Question-29

Saeed, a citizen of Pakistan joined Haris Pharma Limited (HPL) as a General Manager on 01 Oct 20X8. He was offered following monthly salary and allowance in HPL:

	Rupees
Basic salary	600,000
Medical allowance	66,000

In addition to the above, he was also provided the following:

- Bonus equal to two monthly basic salaries. However, bonus amount was adjusted in proportion to the duration of his stay in the company. The bonus amount was paid to him on 5 July 20X9.
- Two company maintained cars. Both cars were purchased on 1 October 20X8. The car costing Rs. 3,500,000 was used for official purposes whereas the car costing Rs. 1,900,000 was used for personal purposes.
- Free lunch from the restaurant owned by one of HPL's directors. The fair market value of food provided to him during the year was Rs. 80,000.
- A special allowance of Rs. 5,000 per month to meet expenses wholly and necessarily incurred in the performance of his official duties.
- Provident fund contribution of Rs. 60,000 per month. An equal amount per month was also contributed by Saeed to the fund.

Other information relevant to tax year 20X9 is as under:

- On 1 December 20X8, Saeed obtained a loan of Rs. 25 million from a scheduled bank at 15% mark-up per annum to acquire a residential house.
- During the year, he received dividends of Rs. 575,000 from a listed company. The amount was net of withholding income tax at the rate of 15% and Zakat of Rs. 62,500 deducted under the Zakat and Usher Ordinance, 1980.
- Withholding tax deducted by HPL from Saeed's salary during the tax year 20X9 amounted to Rs. 1,300,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under the appropriate head of income, the total income, taxable income and net tax payable by or refundable to Saeed for the tax year 20X9. (17)

(Q.1 September 2019)

Question-30

During the tax year 2021, Amjad carried out the following transactions in respect of his properties:

- (i) On 1 July 2020, Amjad purchased a factory building in Sukkur along with the installed machinery at the price of Rs. 18 million and Rs. 6 million respectively. To manage the shortage of funds of Rs. 2,000,000, he borrowed the same on 1 July 2020 from his friend Shamshad through a crossed cheque. The loan carries interest at the rate of 18% per annum.
On 1 January 2021, he let out this building along with the machinery to Basit at a monthly rent of Rs. 500,000 payable in advance.
- (ii) On 1 July 2020, Amjad let out his residential property situated in DHA Karachi to Mirza Limited at a monthly rent of Rs. 300,000. Rent for the two years was received in advance on 1 August 2020.
- (iii) On 1 July 2020, Amjad also entered into an agreement with Zeeshan for the sale of his plot situated in Quetta for Rs. 50 million. The plot had been purchased for Rs. 40 million in 2014. Under the terms of sale agreement, he received Rs. 5 million at the time of signing the agreement and the balance was to be received on 30 September 2020. However, due to financial difficulties, Zeeshan failed to pay the balance amount on the due date and consequently, Amjad forfeited the advance in accordance with the terms of the agreement.
On 10 April 2021, he finally sold the plot to Jamshed for Rs. 65 million.
- (iv) Following expenditures were incurred by Amjad in respect of his properties in Sukkur and Karachi:

Details of expenditures	Property situated in	
	Sukkur	Karachi
Repair & maintenance – building	270,000	70,000
– machinery	50,000	-
Ground rent	50,000	10,000
Insurance – building	150,000	20,000
Total	520,000	100,000

Required:

In view of the provisions of the Income Tax Ordinance, 2001 compute under appropriate head of income, taxable income of Amjad for the tax year 2021.

(Q.2 (b) September 2019)

For the purpose of this question, assume that the date today is 31 August 2022.

Question-31
Shahid is engaged in the business of manufacturing and supplying of auto parts. Following is the extract of his profit or loss statement for the tax year 2022:

	Rs. in '000'
Sales	29,058
Cost of goods sold	(18,724)
Gross profit	10,334
Operating expenses	(3,137)
Financial charges	(2,030)
Other income	760
Profit before tax	5,927

Additional information:

- (i) The above accounts have been prepared on cash basis and stock-in-trade has been valued on prime cost method. However, Shahid wants to change the method of accounting from cash basis to accrual basis. In this respect, following information has been gathered:

	Opening balances	Closing balances
	-----Rs. in '000-----	
Stock-in-trade using prime cost method	1,800	2,800
Stock-in-trade using absorption cost method	2,300	3,200

- (ii) Cost of goods sold includes:
- purchase of packing material of Rs. 2,200,000 from Nasir Traders. No withholding tax was deducted at the time of payment.
 - freight charges of Rs. 285,000. These were paid in cash for transporting goods from suppliers.
- (iii) Operating expenses include:
- salary of Rs. 80,000 per month paid to Shahid's brother who handles administrative matters of the business.
 - expenditure of Rs. 950,000 incurred on the development of a product which is expected to generate revenue for five years.
 - penalty of Rs. 15,000 for late filing of income tax return.
- (iv) Zakat paid under Zakat & Ushr Ordinance is Rs. 93,750.
- (v) Other income includes:
- capital gain of Rs. 45,000 received, net of withholding tax of Rs. 6,750 on sale of 20,000 shares in Metal Limited (ML) in November 2021. ML is listed on PSX. On 1 January 2020, Shahid purchased these shares for Rs. 200,000 at initial public offering. He had claimed a tax credit of Rs. 15,000 on such investment in tax year 2020.
 - rent of Rs. 980,000 received from an agriculture land in Badin. No withholding tax was deducted at the time of receipt.
- (vi) Tax depreciation for the year amounts to Rs. 680,000.
- (vii) Tax deducted at source by customers amounts to Rs. 875,000.
- (viii) The unabsorbed tax depreciation brought forward from tax year 2021 amounts to Rs. 568,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute total income, taxable income and net tax payable by or refundable to Shahid for the tax year 2022. (Use accrual basis of accounting)

Note:

- Your computation should commence with profit before tax figure.
- Show all relevant exemptions, exclusions and disallowances.
- Tax rates are given on the last page.

(18)
(Q.1 March 2020)

Question-32

Sageer, a resident individual, is working as a full time professor at Knowledge Institute (KI) which is a non-profit education and research institution and is duly recognized by Higher Education Commission. KI is entirely owned and funded by Zinger Limited (ZL), a company listed on the Pakistan Stock Exchange. Details of his monthly remuneration during the year ended 30 June 2020 are given below:

	Rupees
Basic salary	
Medical allowance	200,000
Fair market rent of accommodation	20,000
	80,000

In addition to the above, he was also provided the following:

- Health insurance for Sageer and his dependents as per the terms of employment. For this purpose, KI is paying annual insurance premium of Rs. 40,000.
- Provident fund contribution of Rs. 15,000 per month to a recognized provident fund. An equal amount was also contributed by Sageer to the fund.

Additional information

(i) On 1 July 2019, Sageer was granted an option to acquire 10,000 shares in ZL at a price of Rs. 105 per share under an employee share scheme. Sageer bought the option on the same date by paying Rs. 175,000 to KI when the fair market value of the option was Rs. 200,000. He exercised the option on 30 September 2019 when the fair market value was Rs. 130 per share.

As per the scheme, he was not allowed to sell or transfer the shares before 31 December 2019. On 31 December 2019, the fair market value of ZL's shares was Rs. 142. On 30 May 2020, he sold 5,000 of these shares at Rs. 135 per share.

(ii) On 1 July 2019, Sageer obtained an interest free loan of Rs. 1,500,000 from KI in exchange for which he agreed to waive the interest receivable on his provident fund balance maintained with KI. Interest provided on provident fund balance for the year was 8%. The prescribed benchmark rate is 10%.

(iii) On 31 August 2019, he received leave encashment of Rs. 100,000 relating to previous year.

(iv) During the year, tax of Rs. 160,000 was deducted at source by KI.

Other information relevant to tax year 2020:

(i) On 15 January 2020, he sold his house situated in Karachi for Rs. 15,000,000. He had purchased this house on 25 December 2018 for Rs. 14,000,000.

(ii) On 25 December 2020, he sold a residential plot situated in Faisalabad for Rs. 18,000,000. The plot was inherited from his father in 2014. Fair market value of the plot at the time of inheritance was Rs. 7,000,000.

(iii) In June 2020, Sageer independently developed learning courses for sale through a web based marketplace managed by a company situated outside Pakistan. On 25 June 2020, he received USD 4,260 into his dollar account from sale of these courses. Withholding income tax @ 8% was deducted from the receipt as per the income tax laws of the foreign country.

Relevant exchange rates were as follows:

25 June 2020	USD 1 = PKR 168
30 June 2020	USD 1 = PKR 169
Average exchange rate for June 2020	USD 1 = PKR 168.5

(iv) On 1 June 2020, Sageer paid Rs. 1,446,874 as Zakat under Zakat & Ushr Ordinance.

Required: Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income and net tax payable by or refundable to Sageer for the year ended 30 June 2020. Show all relevant exemptions, exclusions and disallowances.

(19)
(Q.1 Sep. 2020)

Chapter 19: Numericals Income Tax

Question-33
(a) Farheen is a resident filer and has provided following information pertaining to tax year 2020:
She owns a bungalow situated in Multan which was given on rent to Abbas under a rental agreement which expired on 31 March 2020. Details of payments received as per the

Question-33

- (a) Farheen is a resident in India. She owns a bungalow situated in Mumbai. She has entered into a lease agreement of four years which expired on 31 March 2020. The monthly rent agreement are given below.
- | Period | Rent |
|------------------------------------|-----------------------|
| From 1 April 2019 to 31 March 2020 | Rs. 175,000 per month |
| From 1 April 2020 to 31 March 2021 | Rs. 50,000 per month |

Rent
Security guards' salaries

Non-adjustable security deposit

Rs. 175,000 per month

Rs. 50,000 per month

Rs. 2,500,000

On expiry of the rental agreement, Farheen refunded the security deposit to Abbas and rented out the bungalow to a new tenant Zafar on the same terms and conditions. Farheen pays Rs. 40,000 per month to a security services company which provides security guards at the bungalow.

- Farheen pays Rs. 40,000 per month at the bungalow.
- (ii) She owns a residential plot in Karachi. On 1 March 2020, she decided to sell the plot to Mehreen for Rs. 2,200,000 and received a deposit of Rs. 176,000. On 1 June 2020, she forfeited the deposit on refusal of Mehreen to purchase the plot.
- (iii) On 1 December 2017, she had acquired a furnished office on monthly rent of Rs. 5,000 for her own use and had paid a non-refundable amount of Rs. 2,000,000 to the previous tenant for vacating the office. During the year, she received an offer of Rs. 2,400,000 from Shehroz to vacate this office which she accepted and received the amount on 1 March 2020.
- (iv) On 1 October 2019, she inherited a factory with plant and machinery from her father and let it out on 1 December 2019 at a monthly rent of Rs. 500,000.
- (v) On 15 November 2019, she received income tax refund of Rs. 180,000 related to tax year 2017. This amount included Rs. 30,000 being additional payment on delayed refund.

Required: Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income of Farheen under appropriate heads of income for the tax year 2020. (07)

- (b) Ahmed has completed his MBA from a university in USA. He had been living there since August 2013 for his education and came to Pakistan only once in 2017 i.e. from 10 March 2017 to 30 September 2017 and then went back to USA to complete his MBA. Along with his studies, he was also doing a part time job at a restaurant in USA till November 2019. He returned to Pakistan on 1 December 2019 and commenced a trading business from 1 January 2020.

Below is the computation for taxable income/loss for the tax year 2020:

	Pakistan source income	Foreign source income	Total
Income from Salary			
Salary from restaurant in USA			
Income from business			
Revenue		840,000	840,000
Less: Deductions	4,000,000		4,000,000
Cost of goods sold	(2,200,000)		(2,200,000)
Selling and administrative expenses [Note A]	(2,820,000)		(2,820,000)
Donation [Note B]	(600,000)	(250,000)	(850,000)
Taxable income/(loss)	(1,620,000)	590,000	(1,030,000)

Note A: Selling and administrative expenses included in the cost of goods sold.

Note A: Selling and administrative expenses include the following:

- (i) Salaries of Rs. 840,000 paid to two employees equally in cash. Withholding income tax was deducted as required under Income Tax Ordinance, 2001.
- (ii) Rs. 600,000 in respect of the feasibility study which was conducted before commencement of the business.
- Donation of Rs. 600,000

Note B: Donation of Rs. 600,000 was paid to a charitable hospital in Pakistan and Rs. 250,000 was paid to a non-profit organization in USA.

Required: Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, comment on the above tax computation for tax year 2020. Give suggestion(s) wherever required.

Note: Revised computation is not required.

(08)
2020

Note: Revised computation is not required.

(04 Sep. 2020)

ICAP PAST PAPER SOLUTIONSAnswer-1

Mr. A
Computation of income and tax thereon
For TY 2xxx

Income from salary
Income from capital gain [S.37(3)]
Income from property
Taxable income

(W-1)	
(4,206,000 x 75%)	8,867,737
(W-2)	3,154,500
	84,500
	<u>12,106,737</u>

Tax liability
Less: Tax deducted u/s 149-Salary
Tax Refundable

(1,220,000 + 6,106,737 x 35%)	(1)	3,357,358
		<u>(3,600,000)</u>
		<u>(242,642)</u>

Workings(W-1) Income from salary

Basic Salary	[S.12(2)(a)]	4,004,520
Bonus	[S.12(2)(a)]	1,980,642
Utility allowance	[S.12(2)(c)]	400,452
Leave Encashment	[S.12(2)(a)]	538,083
Other allowance	[S.12(2)(c)]	90,000
House rent allowance	[S.12(2)(c)]	1,802,040
Director's fee	[S.12(2)(a)]	52,000
		<u>8,867,737</u>

(W-2) Income from property

Gross Rent	(10,000 x 12)	120,000
Less: Admissible deductions		(24,000)
Repair allowance	(120,000 x 1/5)	<u>(11,500)</u>
Property tax of house		84,500
Rent chargeable to tax		<u>84,500</u>

Answer-2

Mr. B
Computation of income and tax thereon
For TY 2012

Income from salary
Income from property
Taxable income

(W-1)	
(W-2)	

22,251,000
245,000
<u>22,496,000</u>

Tax liability on income under NTR

Less: Tax deducted on Salary
Less: Tax paid by employer on employee behalf

$$(2,345,000 + 10,496,000 \times 27.5\%) \quad (2)$$

5,231,400
<u>(4,541,250)</u>
<u>(2,976,000)</u>
<u>(7,517,250)</u>
<u>(2,285,850)</u>

Refundable from Government

Chapter 19: Numericals Income Tax

Workings

(W-1) Income from salary

Basic Salary	[S.12(2)(a)]
Bonus	[S.12(2)(a)]
Utility allowance	[S.12(2)(c)]
Relocation allowance	[S.12(2)(c)]
Accommodation provided (45% of basic salary)	[S.13(12)]
Motor vehicle provided	[S.13(3)]
Children education fees	[S.12(2)(d)]
House servant salaries	[S.13(5)]
Tax of employee paid by employer	[S.12(3)]

N-1 (8,800,000 x 45%)
(2,000,000 x 5%)

8,800,000
5,000,000
880,000
200,000
3,960,000
100,000
105,000
230,000
2,976,000
22,251,000

(N-1) As amount that would have been paid had no accommodation been provided is not given in question, therefore comparison of this amount cannot be made with 45% of basic salary. Therefore only 45% of basic salary is added in the income in respect of accommodation provided.

(W-2) Property Income [Sec. 15]

Gross Rent	(50,000 x 7)
Less: Admissible deductions	(350,000 x 1/5)
Repair allowance	
Property tax of house	
Rent chargeable to tax	

350,000
(70,000)
(35,000)
245,000

Answer-3

Mr. Imran Computation of taxable income For TY 2012

Income from salary

Income from UAE Company

Salary Income	[S.51(2)]	Note - 1	Rs.
Income from Pakistan subsidiary			
Basic Salary	[S.12(2)(a)]	(500,000 x 9)	
Medical allowance		(45,000 x 9)	4,500,000
Less: Exempt up to 10% of basic salary		(4,500,000 x 10%)	405,000
[2 nd Sch. Clause 139]			
Benefit provided in respect of TV and VCR	[S.13(11)]	(40,000 x 20% x 9/12)	(450,000)
Interest free loan	[S.13(7)]		6,000
Family's housing cost in Dubai	[S.12(2)(d)]	(5,000,000 x 10% x 9/12)	
Travelling and related cost	[S.12(2)(d)]	(30,000 x 9)	375,000
Exercise of right	[S.14(2)]	(30,000 x 9)	270,000
Disposal of options	[S.14(5)]	(300 shares x (10\$ - 8\$) x 58)	270,000
Taxable income		(200 x 171)	34,800
			34,200
			5,490,000

Note 1 - Where a citizen of Pakistan leaves Pakistan during a tax year and remains abroad during that tax year, any income chargeable under the head "Salary" earned by him outside Pakistan during that year shall be exempt from tax under ITO, 2001 [S.51(2)]. Therefore, salary earned in UAE will be exempt from tax.

Answer-4

Ms. Fatima Hassan Computation of taxable income For TY 2012

Income from salary	(W-1)	2,105,000
Income from capital gain	(W-2)	225,000
Income from capital gain - disposal of immoveable property (Exempt as holding period > 4 years)		
Taxable income - taxable under NTR		2,330,000

It is assumed that charitable donation is paid through crossed cheque.

Items not included in calculation

Where car is used solely for official purpose nothing will be added in the salary income of employee. [S.13(3)]

Workings

(W-1) Income from salary

Basic Salary	[S.12 (2)(a)]		
House rent allowance	[S.12(2)(c)]	(100,000 x 11m)	
Utilities allowance	[S. 12(2)(c)]	(40,000 x 11m)	1,100,000
Motor vehicle transferred	[S.13(11)]	(15,000 x 11m)	440,000
Fair market value of car at time of transfer			165,000
Less: Cost paid by employee		300,000	
Consideration to enter into an employment	[S.12(2)(e)(i)]	(100,000)	200,000
			200,000
			<u>2,105,000</u>

(W-2) Income from capital gain

Shares in Queen Ltd. [S.37(3)]	(500,000-200,000)x75%	
Painting [S.38(5)]	Loss in not to be recognized	225,000
		<u>225,000</u>

Answer-5

**Mr. Dollar
Computation of income and tax thereon
For TY 2xxx**

Income from salary	(W-1)	1,955,000
Taxable income		<u>1,955,000</u>
Tax liability on income under NTR	(90,000 + 155,000 x 15%) (2)	113,250
Tax to be deducted by employer each month	(113,250/12)	9,438

Workings

(W-1) Income from salary

Basic Salary	[S.12(2)(a)]	(100,000 x 12M)	1,200,000
Medical allowance		(15,000 x 12M)	180,000
Less: Exempt up to 10% of basic salary		(1,200,000 x 10%)	(120,000)
(assuming as per terms of employment)			60,000
[2 nd Sch. Clause 139]			
Utility allowance	[S. 12(2)(c)]	(10,000 x 12M)	120,000
Conveyance provided	[S.13(3)]	(700,000 x 5%)	35,000
Accommodation provided [S.13(12)]			
Higher of:			540,000
- 45% of basic salary or	(1,200,000 x 45%)		
- Amount that would have been paid had no accommodation been provided	(20,000 x 12M)	240,000	540,000
			<u>1,955,000</u>

Answer-6

Mr. Ayub
Computation of income and tax thereon
For TY 2012

<u>Income from salary</u>		(70,500 x 6)		423,000
Basic Salary	[S.12(2)(a)]			
Accommodation provided	[S.13(12)]			
Higher of:		(423,000 x 45%)	190,350	
- 45% of basic salary		(60,000 x 6)	360,000	
- Fair market Rent of furnished accommodation		(12,000 x 6)		360,000
Utilities allowance	[S.12(2)(c)]			72,000
Medical reimbursement (assumed to be as per terms)	[2 nd Sch. Clause 139]			
Gratuity	[2 nd Sch. Clause 13 (ii)]		N-1	
Compensation for early retirement	[S.12(2) (e)(iii)]			
Interest free loan (not chargeable as loan is below Rs. 1,000,000)	[S.13(7)]			150,000
Waiver of loan (200,000 x 25%)	[S.13(9)]			50,000
Car transferred	[S.13(11)]		700,000	
	FMV at the time of transfer		(650,000)	
	Less: Cost paid by employee			50,000
Taxable income				1,105,000

(N-1) As the gratuity fund is approved so both (special and general) amounts received from the fund are exempt.[Exemptions in Second Schedule Part 1(13)]

Answer-7

Mr. Ali Raza
Computation of income and tax thereon
For TY 2008

Income from salary	(W-1)			1,243,600
Income from capital gain – Gain on sale of jewelry				45,000
Income from property	(W-2)			279,880
Taxable income				1,568,480
Tax liability on income under NTR				
Less: Tax deducted u/s 149-Salary	[30,000 + 368,480 x 10%]	(2)	66,848	
Refundable from Government			(170,000)	
			(103,152)	
<u>Workings</u>				
<u>(W-1) Income from salary</u>				
Basic Salary	[S.12(2)(a)]			
Accommodation provided	[S.13(12)]	(65,000 x 12)		780,000
Higher of:		(780,000 x 45%)		
- 45% of basic salary		(780,000 x 45%)	351,000	
- Rent of accommodation		(25,000 x 12)	300,000	351,000
Conveyance provided	[S.13(3)]			
Medical allowance		(500,000 x 5%)	150,000	25,000
Less: Exempt up to 10% of basic salary [2 nd Sch. Clause 139]		(780,000 x 10%)	(78,000)	72,000
(assuming as per terms of employment)				
Employer contribution to provident fund		(780,000 x 12%)	93,600	
Less: Exempt up to lower of:				
- 10% of basic salary and dearness all. (10% of 780,000 = 78,000) or				
- 150,000				
			(78,000)	15,600
				1,243,600

Chapter 19: Numericals Income Tax

(W-2) Property Income

Rental Income

Rental from July 2007 to June 2008

Non-adjustable amount received [S.16(3)]

Less: Already taxed

In TY 2007

In TY 2006

Amounted to be taxed

Gross rent chargeable to tax

Less: Repairs

Less: Admissible deductions

Repair allowance

Share of rent to House Building Finance Corporation

Rent chargeable to tax

$$(30,000 \times 12)$$

$$(86,000/10)$$

$$(368,600 \times 1/5)$$

100,000	360,000
(7,000)	
(7,000)	
86,000	
	8,600
	368,600
	(73,720)
	(15,000)
	279,880

Answer-8

a)

Mr. Manto Computation of income and tax thereon For TY 2009

Income from salary

Income from other source

Income from capital gain – Gain on sale of shares
(holding period is less than one year)

Taxable income

(W-1)

$$25,000 \times (62-42)$$

1,882,030
100,000
500,000

2,482,030

Tax liability on income under NTR

Less: Tax paid by employer [S.12(3)]

Payable to Government

$$(90,000 + 682,030 \times 15\%)$$

(2)

192,305
(102,030)

90,275

Items which are not considered

- (N-1) Lease rentals are not considered when car is acquired on lease, rather fair market value is considered.
(N-2) Interest credited is exempt up to higher of interest calculated @ 16% or 1/3 of salary. Since the rate at which interest has been credited is not given therefore it cannot be compared with 1/3rd of salary.
(N-3) As Mr. Manto is returning expatriate as per section 51(1), therefore Rs. 4,000,000 is exempt.

(W-1) Income from salary

Basic Salary

House rent allowance [S.12(2)(a)]

Medical allowance [S.12(2)(c)]

Medical allowance (Fully taxable)[S.12(2)(c)]

Medical facility (Fully exempt because as per terms)

Conveyance provided [S.13(3)]

Concessional lunch facility (Exempt because Manto is employee of a hotel)[2nd Sch. Clause 53A(ii)]

Training course (Not chargeable because for official purpose) [S.12(2)(d)]

Employer contribution to provident fund

Less: Exempt up to lower of:

10% of basic salary and dearness all. (10% of 1,200,000 = 120,000) or 150,000

Interest credited

Less: Exempt up to 1/3rd of (basic salary+dearness allowance) (1/3 x 1,200,000)

Add: Tax borne by employer [S.12(3)]

(W-2)

1,200,000
360,000
120,000
-
100,000
-
-
120,000
(120,000)
48,000
(400,000)
1,780,000
102,030
1,882,030

(W-2) Tax borne by employer

Step 1

Salary income

Tax thereon

Step 2

Salary income

Tax thereon

Step 3

Salary income

Tax thereon

$$(30,000 + 580,000 \times 10\%)$$

$$(1,780,000 + 88,000)$$

$$(90,000 + 68,000 \times 15\%)$$

$$(1,780,000 + 100,200)$$

$$(90,000 + 80,200 \times 15\%)$$

1,780,000

88,000

1,868,000

100,200

1,880,200

102,030

Answer-9

a)

Mr. Zulfiqar
Computation of income and tax thereon
For TY 2009

Income from salary (W-1) 7,366,000
Income from capital gain – Loss on sale of painting is not allowed as deduction [S.38(5)] 480,000
Income from property (W-2) -
Income from capital gain – disposal of plot (Exempt as holding period exceeds 4 years) 7,846,000
Total income under NTR [S. 60C] (250,000)
Less: Markup paid on house loan to a scheduled bank: 7,596,000
lower of 250,000 or 50% of 7,846,000 or 2,000,000
Taxable Income (2) 1,254,100

Tax liability on income under NTR (670,000 + 2,596,000 x 22.5%) (2) 1,254,100
Less: Tax credit on investment in new shares u/s 62 (1,254,100 / 7,596,000) x 500,000 (82,550)
C is lower of: 500,000 or 20% of 7,596,000 or 2,000,000

Add: Tax on disposal of plot (not taxable as holding period > 4 years) 1,171,550
Total tax liability (200,000)

Less: Tax paid by employer u/s 149 971,550

Payable to Government

b) Items not included

(N-1) Rent received relating to relevant tax year is chargeable only.

Workings

(W-1) Income from salary

Basic Salary [S.12(2)(a)] (280,000 x 9) 2,520,000

Medical allowance (45,000 x 9) 405,000

Less: Exempt up to 10% of basic salary (2,520,000 x 10%) (252,000) 153,000

[2nd Sch. Clause 139]

Utilities allowance [S.12(2)(c)] (45,000 x 9) 405,000

Cost of living allowance [S.12(2)(c)] (25,000 x 9) 225,000

Accommodation provided [S.13(12)]

Higher of:

- 45% of basic salary (2,520,000 x 45%) 1,134,000

- Fair market rent of accommodation (90,000 x 9) 810,000

Tax borne by employer [S.12(3)] 2,660,000

Gratuity [2nd Sch. Clause 13(iv)]

Less: Exempt up to lower of:

- 50% of 2,660,000 = 1,330,000

- 75,000 (75,000)

Pension: Lower of the following [2nd Sch. Clause 8]

From Mirza Petroleum Limited (50,000 x 3) 150,000

From Multinational company (12,000 x 12) 144,000

144,000

7,366,000

Chapter 19: Numericals Income Tax

(W-2) Property Income [Sec. 15]

Gross Rent	(100,000 x 6)	600,000
Less: Admissible deductions		
Repair allowance	(600,000 x 1/5)	(120,000)
Rent chargeable to tax		<u>480,000</u>

Answer-10

Mr. Zameer Ansari Computation of income and tax thereon For TY 2010

Income from salary	(W-1)	4,230,000
Capital gain	[S.37(3)]	67,500
Income from property		221,760
Total Income under NTR	(W-2)	<u>4,519,260</u>
Less: Zakat		(250,000)
Taxable income		<u>4,269,260</u>

Tax liability on income under NTR	(370,000 + 769,260 x 20%)	(2)	523,852
Less: Tax deducted on salary			(650,000)
Refundable from Government			<u>(126,148)</u>

Workings

(W-1) Income from salary

Basic Salary	[S.12(2)(a)]	(200,000x12)	2,400,000
Medical allowance (fully taxable)	[2 nd Sch. Clause 139]	(30,000x12)	360,000
Utility allowance	[S.12(2)(c)]	(10,000x12)	120,000
School fee of children	[S.12(2)(d)]	(15,000x12)	180,000
Accommodation provided	[S.13(12)]	(2,400,000x45%)	1,080,000
Car for business use	[S.13(3)]	(not chargeable to tax)	-
Car partly for personal use	[S.13(3)]	(1,800,000x5%)	90,000
Leave encashment	[S.12(2)(a)]	(taxable in next year)	-
Contribution to approved pension fund (Its chargeability will be decided at the of receipt)			-
			<u>4,230,000</u>

(W-2) Income from property

Rental	(22,000 x 12)	264,000
Add: Non-adjustable amount received [S.16(3)]		150,000
Less: Already taxed		(9,000)
In TY 2008		(9,000)
In TY 2009		132,000
Amount to be taxed	(132,000/10)	13,200
Gross rent chargeable to tax		277,200
Less: Repair allowance	(277,200 x 1/5)	(55,440)
		<u>221,760</u>

Chapter 19: Numericals Income Tax

Adjustment (c) Explanation		1-7-06	30-6-07	30-6-08	30-6-09	30-6-10
		TY 2007	TY 2008	TY 2009	TY 2010	
		1-12-06		1-01-09	1-04-10	
Received shares / Co. Issued shares				Restriction released	Shares Sold	
With restriction				FMV shares (42 x 15,000)	Consid. Rec (48 x 15,000)	(000) 720
X				Less:	Less: Cost	
				Cost of share (0)	a. Cost of Shares	0
				Cost of right (0)	b. Cost of right	0
				IFS	c. IFS	630
						(630)
					IFCG	90 x 75% = 67.5

Note: In numerical only 2010 year is in requirement so only Rs. 67,500 will be shown in main solution.

Answer-11

Tutorial note: Loss of Pakistan source income cannot be adjusted against foreign source income.

Mr. Mateen Computation of income and tax thereon For TY 20X2

Income from business – FSI			535,000
Income from salary – PSI		(W-1)	4,592,100
Income from other source - PSI [S.39(1)(k)]	(180,000/10)	18,000	
Loss from business – PSI [S.56]		(350,000)	-
Income from capital gain – securities	(10,000 x 100 – 1,000,000)		-
Total income			5,127,100
Less: Gain on disposal of securities – taxable separately			(-)
Taxable income			5,127,100
Tax liability on income under NTR (670,000 + 127,100 x 22.5%)		(2)	698,598
Less: Foreign tax credit (lower of) [S.103]			
– Actual foreign tax paid		130,000	
– Pakistan tax (698,598/5,127,100) x 535,000		72,897	(72,897)
Add: Tax credit disallowed [S.62]			625,701
Add: Tax on disposal of securities			100,000
Total tax liability			725,701
Less: Tax deducted on salary u/s 147			550,000
Less: Tax deducted on commission (500,000 x 10%)			50,000
Payable to Government			(600,000)
Business loss to be c/f [S.57(1)(2)] (350,000 – 18,000)			125,701
Items not included in calculation			332,000
As Zakat is not paid under Zakat and Ushr Ordinance so it will not be allowed as deduction.			

Workings **(W-1) Income from salary** **Income from ML**

Gratuity
 Less: exempt up to lower of

[2nd Sch. Clause 13(iv)]

[S.12(2)(a)]

- 50% of 350,000	175,000	350,000	
Or	75,000	(75,000)	275,000
			150,000

Leave encashment

Income from RSL

Compensation in respect of un-served notice period [S.13(10)]

Basic Salary

Utility allowance

Reimbursement of personal medical expenses (exempt being as per terms) [2nd Sch. Clause 139]

Reimbursement of hospitalization charges (exempt being as per terms) [2nd Sch. Clause 139]

Pick and drop facility

Conveyance provided

House keeper services

Special allowance

Interest free loan

Commission

[S.12(2)(a)]

[S.12(2)(c)]

[S.13(3)]

[S.13(5)]

[S.12(2)(c)]

[S.13(7)]

[S.12(2)(a)]

(245,000x12)	2,940,000
(21,000x12)	252,000
(not chargeable)	-
(1,500,000x5%x10/12)	62,500
(6,000-20% of 6,000) x 12)	57,600
(exempt)	-
(1,500,000x 10%x6/12)	75,000
	500,000
	<u>4,592,100</u>

Answer-12 a)

Mr. Khursheed **Computation of income and tax thereon** **For TY 2022**

(W-1)
 (700,000 - 500,000)
 (W-2)

21,200,000
200,000
60,000
<u>21,460,000</u>
(200,000)
(7,500,000)
<u>13,760,000</u>
(127,500)
<u>13,632,500</u>
2,793,938
<u>375,000</u>

Income from salary
 Income from capital gain - securities
 Income from property
 Total income
 Less: Income from capital gain - taxable separately
 Golden handshake - taxable separately
 Total income under NTR

Less: Zakat
 Taxable income - taxable under NTR
 Tax liability on income taxable under NTR
 Add: Tax on golden hand shake
 (assuming Khursheed, by notice in writing to commissioner would elect to be taxed on the basis of average rate of tax of last three year)
 Total tax liability
 Add: Tax on securities [S.37A(1)]

(2,345,000 + 1,632,500 x 27.5%)
 [S.12(6)] (7,500,000 x 5%)
 (700,000 - 500,000) x 12.5%

3,168,938
25,000
<u>3,193,938</u>
(3,750,000)
60,000
<u>(496,062)</u>

Less: Tax deducted at source
 Add: Tax credit disallowed [S.62]
 Payable to government/Refundable from government

Chapter 19: Numericals Income Tax

(W-1) Income from salary

Basic Salary [S.12(2)(a)]

Medical allowance

Less: Exempt up to 10% of basic salary [2nd Sch. Clause 139]

Utility allowance [S.12(2)(c)]

Car provided [S.13(3)]

Reimbursement of surgery cost (taxable because not as per terms) [2nd Sch. Clause 139]

Gratuity [2nd Sch. Clause 13(iv)]

Less: Exempt up to lower of:

- 50% of 9,100,000 = 4,550,000

- 75,000

Car transferred [S.13(11)]

Golden hand shake

Salary income

(400,000 x 6)

(75,000 x 6)

(2,400,000 x 10%)

(2,400,000 x 10%)

(5,000,000 x 5% x 6/12)

(2,800,000 - 2,600,000)

450,000

(240,000)

9,100,000

(75,000)

(2,800,000 - 2,600,000)

2,400,000

210,000

240,000

125,000

1,500,000

9,025,000

200,000

7,500,000

21,200,000

(W-2) Income from property

Gross rent

Less: Admissible deductions

Repair allowance

Income from property

(25,000 x 3)

(75,000 x 1/5)

75,000

(15,000)

60,000

b) Items not included

- Rs. 10,000/month deducted from his salary will have no impact because it is nowhere provided in law to deduct this amount.

- Business loss of Rs. 750,000 cannot be adjusted against salary during the year, so it will be carried forward. [S.56(1)]

- Capital loss of Rs. 500,000 cannot be adjusted against any other head during the year, so it will be carried forward. [S.56(1)]

- Sale of personal car has no impact because as per the definition of capital asset personal moveable property is not a capital asset. [S.37(5)]

Answer-13

Dr. Sona

Computation of income and tax thereon

Income from Business

Income from Other source

Income from property

Taxable income under NTR

Tax liability on income under NTR

Less: Tax credit on donation [S.61]

C is lower of: 300,000 or 30% of 8,251,600

Tax payable to Government

Note: It is assumed that charitable donation is paid through crossed cheque.

(W-1)

(W-2)

(W-3)

(1,220,000 + 2,251,600 x 35%)

(2,008,060/8,251,600) x 300,000

7,436,600

75,000

740,000

8,251,600

2,008,060

(73,006)

1,935,054

(1)

(W-1) Income from business

Revenues

Consultation fees

[S.18(1)(a)]

4,400,000

Income from surgery

[S.18(1)(a)]

3,950,000

8,350,000

Less: Expenses

Rent of clinic

[S.20(1)]

300,000

Depreciation motor car

(96,000 x 40%)

38,400

Depreciation surgical equipment

75,000

Salary to assistant

[S.20(1)]

180,000

Clinic running expenses

[S.20(1)]

240,000

Car expenses

[S.20(1)]

(200,000 x 40%)

80,000

(913,400)

7,436,600

(W-2) Income from other sources

Article writing

[S.39]

75,000

(W-3) Income from property

Income

Rentals

870,000

Non- adjustable amount received [S.16(3)]

700,000

Less: Already taxed

In TY --

(50,000)

In TY --

(50,000)

In TY --

(50,000)

550,000

Amount to be taxed

(550,000/10)

55,000

925,000

Less: Admissible deductions

Repair allowance

(925,000 x 1/5)

(185,000)

Income from property

740,000

Items not included:

- House hold expense is not an allowable deduction.[S.21(h)]
- Cost of car and surgical equipment is not an allowable deduction, rather their depreciation will be allowed as deduction.

Answer -14

Beena Sikandar

Computation of income and tax thereon

For Tax Year 2012

Income from business

(W-1)

5,540,000

Income from salary

(W-2)

1,650,000

Taxable Income

7,190,000

Tax liability on income falling under NTR

(1,220,000 + 1,190,000 x 35%)

(1)

1,636,500

Less: Tax credit u/s 61

(1,636,500/7,190,000) x 250,000

(56,902)

C is lower of: 250,000 or 30% of 7,190,000

1,579,598

Less: Taxes deducted at source

From salaries

390,000

From fee received for attending the meetings of BOD

9,000

(399,000)

1,180,598

Tax payable to Government

Chapter 19: Numericals Income Tax

(W-1)	<u>Income from business</u>		
	Accounting profit		
Add:	Deductions not allowed	[S.21(h)]	(50,000 x 12)
	Salaries	[S.21(h)]	(50,000 + 250,000)
	Gifts and donation		
	Lease security deposit	[S.21(h)]	
	Professional fees	[S.21(h)]	
	Property expenses		(350,000 x 40%)
	Travel expenses	[S.21(l)]	
	Other expenses		
	Income Tax (Previous year)	[S.21(a)]	

3,500,000
600,000
300,000
500,000
150,000
140,000
-
260,000
90,000
2,040,000
5,540,000

(W-2)	<u>Income from salary</u>		(100,000 x 12)	1,200,000
	Remuneration	[S.12(2)(a)]	(100,000 x 2)	200,000
	Bonus (taxed on receipt basis)	[S.12(2)(a)]	(2,000,000 x 5%)	100,000
	Car benefit	[S.13(3)]		150,000
	Board meetings	[S.12(2)(a)]		1,650,000

Notes:

- 1- It is assumed that bad debt was allowed as deduction by tax authorities.
- 2- Salary paid to her brother is a business expense so it is allowed as deduction.
- 3- Gifts to clients and lease rentals are allowed as an expense.

Answer-15

Kashmala and Shumaila Income and tax thereon For TY 2012

<u>Income from business</u>			(800,000)
Accounting Profit/(Loss)			800,000
Add: Salaries	[S.21(h)]	(500,000 + 300,000)	300,000
Add: Accounting depreciation			300,000
Profit before depreciation			(400,000)
Less: b/f business loss	[S.57(1)(2)]		-
Taxable income			-
Actual tax liability (no taxable income, so zero)			-

c/f	- business loss		(100,000)
	- unabsorbed depreciation[S.57(4)]	(300,000 + 250,000)	(550,000)

Answer-16

Mr. Creative Income and tax thereon For TY 20XX

Calculation of taxable income and tax liability

Income from salary	(W-1)	5,912,000
Income from capital gain		
- Shares of private company	(W-2)	13,500
- Securities (Open ended mutual fund)	(4,000 x 58.6) - (4,000 x 50)	34,400
Income from property	(W-3)	504,000
Total income		6,463,900
Less: Income from capital gain - securities (open ended mutual fund)		(34,400)
Total income under NTR		6,429,500
Less: Zakat		(50,000)
Taxable income - taxable under NTR		6,379,500

Chapter 19: Numericals Income Tax

Tax liability	$(670,000 + 1,379,500 \times 22.5\%)$ (2)	980,388
Less: Tax credit on approved pension fund [S.63]		
C is lower of: 600,000 or 20% of 6,379,500	$980,388/6,379,500 \times 600,000$	(92,207)
Less: Tax credit on purchase of listed shares [S.62]		
C is lower of: 1,100,000 or 20% of 6,379,500 or 2,000,000	$980,388/6,379,500 \times 1,100,000$	(169,046)
Tax liability of income falling under normal tax regime		719,135
Add: Tax on security -Open Ended Mutual Fund	$[(4,000 \times 58.6) - (4,000 \times 50)] \times 12.5\%$	4,300
		723,435
Less: Tax deducted u/s 149		(737,000)
Tax Payable to /Refundable from Government		(13,565)

Workings

(W-1) <u>Income from salary</u>			
Basic salary [S.12(2)(a)]	$(300,000 \times 12)$		3,600,000
Utilities [S.12(2)(c)]	$(15\% \times 3,600,000)$		540,000
Medical [2 nd Sch. Clause 139]	$(12\% \text{ of } 3,600,000)$	432,000	
Less: Exempt upto 10% of basic salary	$(10\% \text{ of } 3,600,000)$	(360,000)	72,000
Accommodation provided [S.13(12)]			
Higher of:			
- 45% of basic salary	$(45\% \times 3,600,000)$	1,620,000	
- Rent of accommodation	$(130,000 \times 12)$	1,560,000	1,620,000
Car for business & personal use[S.13(3)]	$(5\% \text{ of } 1,600,000)$		80,000
			5,912,000

(W-2) Income from capital gain

Consideration received	$(8,000 \times 75\%) = 6,000 \times \text{Rs. } 145/\text{share}$	870,000
Less: Cost of shares	$(6,000 \times 142)$	(852,000)
		18,000
		13,500

Chargeable gain [S.37(3)]

(W-3) Income from property

Income			
Rental from July to December	$(50,000 \times 6)$		300,000
Rental from January to June (higher of)	[S.15(4)]		
- Actual	$(48,000 \times 6)$	288,000	330,000
- Fair market rent	$(50,000 \times 6 \times 110\%)$	330,000	630,000
			(126,000)
			504,000
Less: Admissible deductions	$(630,000 \times 1/5)$		
Repair allowance			

Items not included:

- (N-1) Where an amount an amount which is not adjustable against the rent is refunded by the owner to the tenant on termination of the tenancy before the expiry of 10 years, no portion of the amount shall be allocated to the tax year in which it is refunded or to any subsequent tax year. Therefore Rs. 300,000 is ignored.[S.16(2)]
- (N-2) Tax credit of 40,000 will not be disallowed as holding period is more than 24 months.[S.62]

Answer-17

Mrs. Aslam
Calculation of taxable income and tax liability
TY2022

Income from salary**From SL**

Leave encashment [S.12(2)(a)]
 Gratuity [2nd Sch. Clause 13(iv)]

Less: Exempt (lower of:)

- 50 % of 500,000

-or 75,000

Reimbursement (Exempt assuming as per terms) [2nd Sch. Clause 139]**From HPL**

Basic Salary [S.12(2)(a)] (200,000 x 12)

Medical allowance [S.12(2)(c)] (60,000 x 12)

Less: Exempt upto 10% of basic salary (10% of 2,400,000)

Rent free accommodation [S.13(12)]

Higher of:

- 45% of basic salary

- Annual letting value

Travelling allowance [S.12(2)(c)]

Employer contribution - Provident fund

Less: Exempt (lower of:)

- 10% of 2,400,000

- 150,000

Employee contribution (Ignored being already part of salary)

Shares acquired under scheme [S.14(2)]

Fair market on date restriction released

Less: Cost of shares

Interest benefit [S.13(7)]

(Exempt because loan less than Rs. 1,000,000)

Laptop transferred [S.13(11)]

Tax to be borne [S.12(3)]

(W-2)

Income from capital gain

Gain on securities [S.37A] (acquired after 1.7.16)

(W-1)

Total Income

Less: Income from capital gain - taxable separately

Total Income under NTR

Less: Zakat [Sec. 60]

Taxable income

Tax liability on income falling under NTR

Less: Tax credit on charitable donation [S.61]

C is lower of - 70,000 or 30 % of 5,729,654

Tax on securities [S.37A] (acquired after 1.7.16)

Less: Tax borne by employer

Payable to Government/ (Refundable)

Item not included Any amount received from spouse under an agreement to live a part is exempt from tax. [S. 48]

Rs.

95,000

425,000

520,000

2,400,000

480,000

1,080,000

240,000

90,000

140,000

150,000

4,580,000

734,654

5,834,654

20,000

5,854,654

(20,000)

5,834,654

(105,000)

5,729,654

834,172

(10,191)

823,981

2,500

(734,654)

91,827

Workings
(W-1) Gain
 Consideration received
 Less: Cost

(5,000 x 32)

Cost of shares
 Cost of right
 Amount charged under salary

(W-2) Tax borne by employer [S.12(3)]

Step 1
 Salary income
 Tax there on
Step 2
 Salary income
 Tax there on
Step 3
 Salary income
 Tax there on

(370,000 + 1,080,000 x 20%)

(4,580,000 + 586,000)

(670,000 + 166,000 x 22.5%)

(4,580,000 + 707,350)

(670,000 + 287,350 x 22.5%)

4,580,000

5,166,000

5,287,350

160,000

140,000

(140,000)

20,000

586,000

707,350

734,654

Answer-18

a)

Mr. Qamar

Calculation of taxable income and tax liability

Income from business

Sale of motors

Less: Cost of sales and administrative expenses (W-1)

Profit before depreciation

Less: b/f business loss before depreciation [S.57(1)]

Less: Tax depreciation brought forward

Less: Tax depreciation current year

Taxable income

Tax liability

Less: Tax credit on charitable donation [S.61]

Rs.

45,000

(31,850)

13,150

(4,000)

9,150

(500)

8,650

(9,000)

-

350

C/f - tax depreciation

[S.57(4)]

(8,650 - 9,000)

(W-1) Calculation of cost of sales and administrative expenses

Cost of sales and administrative expenses as per question

Less: Drawings (Electricity charges of residence)

Donations to a non-profit organization

Fine paid to the Ministry of Environment

Unabsorbed depreciation brought forward from previous tax year

[S.21(h)]

[S.61]

[S.21(g)]

[S.57(4)]

33,000

(150)

(300)

(200)

(500)

31,850

b)

- Travelling expense on Qamar's visit to Malaysia for attending trade fair is incurred wholly and exclusively for the purpose of business, therefore it is allowed as deduction under the head income from business. [S.20 (1)]
- Electricity charges paid for Qamar's residence is drawing, therefore it is not allowed as deduction. [S.21(h)]
- As per the provisions of law any fine, penalty paid for violation of law, rule or regulation is not a violation of law, rule or regulation. [S.21(g)]

Chapter 19: Numericals Income Tax

- A tax credit will be allowed for donation made to a non-profit organization [S.61] , therefore no deduction will be allowed.
- Salary paid to Bari who is Qamar's brother is incurred wholly and exclusively for the purpose of business and tax has also been properly deducted, therefore it is allowed as deduction under the head income from business. [s.20 (1)]
- As per the provisions of law any fine, penalty paid for violation of law, rule or regulation is not allowed as deduction. Fine paid to the Ministry of Environment for infringement of environmental and safety laws is therefore not allowed as deduction. [S.21(g)]
- Brought forward unabsorbed depreciation will be treated as part of current year depreciation and will be adjusted against profit before depreciation after adjustment of b/f business loss.

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Chapter 19: Numericals Income Tax

Items not included

- Salary of Rs. 25,000 or below can be paid in cash, so it is allowed as deduction.
- Utility bills can be paid in cash, so it is allowed as deduction.

Answer-20

Mr. Tahir Income and tax thereon TY 2021

Income from business

Profit before tax			1,057,000
Add:	Accounting depreciation	(1,500,000 x 15%)	225,000
	Computer software wrongly included in expenses		975,000
	Cost of feasibility wrongly included in expense		250,000
	Financial charges on leased asset		80,000
	Depreciation on leased asset		260,000
	Personal car expenses [S.21(h)]	(295,450 x 20%)	59,090
	Provision for bad debt [S.29 (1)]		25,000
			1,874,090
Less:	Initial allowance on machinery [S.23(1)]	(1,500,000 x 25%)	375,000
	Tax depreciation [S.22]	(1,500,000 - 375,000) x 15% x 50%	84,375
	Amortization on computer software [S.24(4)]	(975,000/10 years)	97,500
	Amortization on pre-commencement Exp. S.25(2)]	(250,000 x 20%)	50,000
	Lease rentals paid [S.28 (1)(b)]		384,375
			(991,250)
			1,939,840

Income from capital gain

Gain on disposal of immoveable property	(W-3)	3,000,000
Total Income		4,939,840
Less: Income from capital gain – taxable separately		(3,000,000)
Taxable income under NTR		1,939,840

Tax liability on income falling under NTR	(70,000 + 739,840 x 15%)	180,976
Less: Tax credit allowed (higher of) [S.62]		
- On Purchase of shares (W-1)	36,195	(36,195)
- On insurance Premium paid (W-2)	27,988	105,000
Add: Tax on disposal of immoveable property	(3,000,000 x 3.5%)	105,000
Payable to Government		249,781
(W-1) Tax credit on purchase of Shares [S.62]	(180,976/1,939,840) x 387,968	36,195
C is lower of 600,000 or 20% of 1,939,840 = 387,968 or 2,000,000		
(W-2) Tax credit on amount of Premium paid [S.62]	(180,976/1,939,840) x 300,000	27,988
C is lower of 300,000 or 20% of 1,939,840 = 387,968 or 2,000,000		
(W-3) Gain on disposal of immoveable property	(5,500,000 - 1,500,000) x 3/4	3,000,000

Items not included

1. Salary paid to Tahir's brother is an allowable expense as he is working as an employee in the business.
2. Any foreign- source income derived by a citizen of Pakistan in a tax year who was not a resident individual in any of the 4 tax years preceding the tax year in which the individual became a resident shall be exempt from tax in the tax year in which the individual became a resident and in the following tax year. Therefore income of Tahir from UAE is exempt from tax.[S.51]

Answer-21

Mr. Mukarram Taxable Income for the Tax Year 20X5

Income from salary

Basic salary	[S.12 (2) (a)]	(250,000 x 12)	450,000	Rs. 3,000,000
Medical allowance	[2 nd Sch. clause 139]	(37,500 x 12)	(300,000)	150,000
Less: Exempt 10% of basic salary		(3,000,000 x 10%)		
Housing allowance	[S.12(2) (c)]	(25,000 x 12)		300,000
Travel allowance	[S.12(2) (c)]	(11,500 x 12)		138,000
Car provided	[S.13(3)]	(1,000,000 x 5%)		50,000
Car transferred	[S.13(11)]	(400,000-0)		400,000
Buffet Dinner coupons	[S.13(11)]	(2,000 x 2 x 12)		48,000
Telephone & Internet facility	[S.12(2) (d)]	(20,000 x 80%)		16,000
Benefit of appliances	[S.13(11)]	(300,000 x 10%)		30,000
				<u>4,132,000</u>

Income from capital gain

Disposal of painting [S.37(3)] [S. 77(2)]	(275,000 - 100,000 - 15,000) x 75%	120,000
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Income from agriculture – Exempt (750,000 + 325,000)

Income from business [Rule 11 below S.41]

Sales/revenue	860,000	
Less: Market value of produce used as raw material (2,500 x 5,000/40)	(312,500)	
Less: Other operating expenses	(10,000)	537,500
Taxable income		<u>4,789,500</u>

Items not included:

- As car is a personal moveable property therefore, it is not a capital asset as per S. 37, so gain on disposal of car to his neighbor is ignored in calculation.
- Salary is taxed on receipt basis. Therefore bonus received on 5.7.20X5 will be taxed in next tax year. [S.12(1)]
- As the option is yet not exercised in respect of employee share scheme, therefore nothing will be added in salary income. [S.14]
- Loss on disposal of diamond (a jewelry) of Rs. 30,000 (280,000 – 250,000) is not allowed as deduction. [s.38(5)]
- Income from renting of agricultural land and building which is in immediate vicinity of the land i.e. Rs.750,000 and Rs.325,000 respectively falls under the definition of agricultural income, therefore it is exempt from tax. [S.41]

Answer-22

Wajahat
Income and tax thereon
Tax Year 2021

Calculation of taxable income and tax liability			Rs.
Income from salary	(W-1)		1,191,800
Foreign source dividend [S.39(1) (a)]			65,000
Income from business	(W-2)		1,234,250
Total income			2,491,050
Less: Zakat			(4,600)
Taxable income			2,486,450
Tax liability on income under NTR	(250,000 + 86,450 x 20%)	(1)	267,290
Less: Tax credit under section 63			(53,458)
A/B x C	267,290/2,486,450 x 497,290		
C is lower of:			
- Actual contribution			890,000
- 20% of taxable income of current year	(2,486,450 x 20%) (See Note)		497,290
			213,832
			9,200
Add: Tax on FTR (Dividend)			223,032
Total tax liability			(9,200)
Less: Tax on FTR (Dividend)			213,832
Payable to Government			

Note: Additional contribution of 2% in approved pension fund for age exceeding 40 years was applicable upto 30 June 2019. As the computations are being made for TY 2021, additional contribution will not be allowed.

Workings

(W-1) Income from salary			Rs.
Basic Salary	[S. 12 (2) (a)]	(70,000 x 12)	840,000
Dearness allowance	[S. 12 (2) (c)]	(10,000 x 12)	120,000
Conveyance allowance	[S. 12 (2) (c)]	(8,000 x 12)	96,000
Employee contribution (ignored being already included in above salary)			-
Employer contribution	(8,400 x 12)		100,800
Less: Exempt upto lower of:			
- 1/10th of (840,000 + 120,000)		96,000	
or - 150,000		150,000	(96,000)
			4,800
			391,000
Interest on fund balance			
Less: Exempt upto higher of:			
- 1/3rd of (840,000 + 120,000)		320,000	
or - 391,000 / 20% x 16%		312,800	(320,000)
			71,000
			60,000
Reimbursements of electricity bills[S. 12 (2) (d)]			1,191,800

(W-2) Income from business

Tuition Fee (Revenue)			2,198,000
Less: Deductions allowed			(350,000)
Salary to Yousaf	[S.20 (1)]	(35,000 x 10)	(328,125)
Teacher training work shop	[S.20 (1)]		(62,500)
Initial allowance on computer	[S.23]	(250,000 x 25%)	(28,125)
Tax depreciation on computer		(250,000 - 62,500) x 30% x 50%	(195,000)
Other miscellaneous expenses[S.20(1)]			1,234,250

- Rs.50,000 paid to himself per month will not be allowed as deduction being personal expenditure in nature.
[S.21(h)]

Answer-23

Mr. Bader
Computation of income and tax thereon
For TY 2016

Income from salary	(W-1)	Rs. 6,902,250
Income from Capital gain	(W-2)	125,000
Total income		7,027,250
Less: Termination benefits – taxable separately		(600,000)
Taxable income under NTR		6,427,250
Tax liability on income under NTR $(670,000 + 1,427,250 \times 22.5\%)$		991,131
Less: Tax credit u/s 62 (higher of:)		
- investment in life insurance u/s 62	(W-3) 46,262	
- purchase of shares u/s 62	(W-4) 16,192	
		(46,262)
Add: Tax on Separate block income		944,869
- termination benefit $[S.12(6)]600,000 \times (1,260,000 / 10,500,000)$ (assuming Bader, by notice in writing to commissioner would elect to be taxed on the basis of average rate of tax of last three year)		72,000
Total tax payable		1,016,869
Less: Tax deducted on salary		(1,105,000)
Tax payable to/refundable from Government		(88,131)

Workings

(W-1) Income from salary			
Basic Salary	[S. 12(2)(a)]	$(250,000 \times 12)$	3,000,000
Medical allowance		$(28,000 \times 12)$	
Less: Exempt upto 10% of Basic Salary		$(3000,000 \times 10\%)$	336,000
	[2 nd Sch. Cl. 139]		
House rent allowance	[S. 12(2)(c)]	$(120,000 \times 12)$	(300,000) 36,000
Amount received for employment condition	[S. 12 (2) (e) (ii)]		1,440,000
Benefit on purchase of inventory	[S. 13(11)]	$(22,000 - 12,000)$	900,000
Car for personal and official use	[S. 13(3)]	$(1,500,000 \times 5\% \times 11/12)$	10,000
Purchase option exercised	[S.14 (3)]	(W-1.1)	68,750
Unapproved gratuity from previous employer			437,500
Less: exempt upto lower of			
[2 nd Sch Part I Cl. 13 (iv)]	- 75,000 OR	485,000	
Free medical facility of Rs. 65,000 [2 nd Sch. clause 53A] (Exempt as employee of hospital)	- 50% of 485,000 = 242,500	(75,000)	410,000
Termination benefit			-
			600,000
(W-1.1) Purchase option exercised			6,902,250
Fair market value of share on 15.9.2015 $(2,500 \times 375)$			
Less: Amount paid for option			937,500
Less: Amount paid for shares			(200,000)
			(300,000)
(W-2) Income from Capital Gain – MP (Private) Company [S.14(4)]			437,500
Sale of 2,000 share $(875,000 + 5,000 + 10,000)$			
Less: Cost of share [S. 14(4)]			
Cost of option			890,000
Consideration given at exercise of option	$(200,000/2,500) \times 2,000$	160,000	
Amount chargeable under the head salary (W-1)	$(300,000/2,500) \times 2,000$	240,000	
Less: Bank charges and brokerage commission	$(437,500/2,500) \times 2,000$	350,000	(750,000)
	$(5,000 + 10,000)$		(15,000)
			125,000

As MP is not listed in Pakistan Stock Exchange so it will be considered as private company.

Chapter 19: Numericals Income Tax

(W-3) Tax credit on investment in life insurance u/s 62

U/S 62

"A" is tax payable

"B" is taxable income

"C" is lower of:

- 300,000
- 20 % of 6,427,250 or
- 2,000,000

$$(A/B) \times C$$

$$(991,131/6,427,250) \times 300,000 = 46,262$$

(W-4) Tax credit on purchase of shares u/s 62

U/S 62

"A" is tax payable

"B" is taxable income

"C" is lower of:

- 105,000 (35,000 x 15% = 5,250 shares x Rs. 20/share)
- 20 % of 6,427,250 or
- 2,000,000

$$(A/B) \times C$$

$$(991,131/6,427,250) \times 105,000 = 16,192$$

Items not included:

1. Value of right or option is not taxable so Rs 250,000 is ignored. [S. 14(1)]
2. In case of inventory sold we only need the FMV of inventory on the date it is transferred to employee and amount paid by employee to employer. Therefore cost to employer of Rs.35,000 and NRV on June 30th, 2016 are ignored.

Adjustment (iv) Explanation

TY 2015	TY 2016	
1-7-14	30-6-15	30-6-16
FMV of option = 250,000 [S. 14(1)]	MV = 375 / share	15-6-16
Aug. 14 purchased option / option granted	1-Sep.-15 Paid cost of 2,500 shares	15-Sep.-15 Co. Issued shares / employee received shares
Cost of right paid = 200,000	Rs. 300,000	IFS
X	X	FMV (375 x 2,500) 937,500
		Less: Cost of share (300,000)
		Less: Cost of right (200,000)
		IFS 437,500
		IFCG
		Sold shares (000)
		Consideration received (Gross) 890
		(875 + 5 + 10)
		Less: Cost [S.14 (4)]
		a. Cost of shares $\left(\frac{300}{2,500} \times 2,000\right)$ 240
		b. Cost of right $\left(\frac{200}{2,500} \times 2,000\right)$ 160
		c. Income from sal. $\left(\frac{437.5}{2,500} \times 2,000\right)$ 350
		Less: Bank charges 10
		Less: Commission (765)
		125

Answer-24**Notes for students:**

Adj.(i) As reimbursement of Rs. 6,000 is for official purpose so it is not a part of salary, hence ignored.

Adj.(v) It is assumed in adjustment (v) that no accounting gain/loss is recorded on transfer of asset to Dubai.

Mr. Mushtaq
Income and tax thereon
TY 2021

Income from Business	(W-1)	
Capital gain	(W-5)	
Taxable income		1,566,800
		211,500
		<u>1,778,300</u>
Tax liability on income under NTR	(70,000 + 578,300 x 15%)	(1)
Less: Advance Tax Paid u/s 147		156,745
Payable to Government / (Refundable)		<u>(200,000)</u>
		<u>(43,255)</u>

(W-1) Income from business

Profit before tax

1,800,000

Add:	Salary paid in cash [S.21 (m)]	(46,000- 6,000) x 12 months x 2 employees	
	Research paid outside Pakistan [S.26 (1)]		960,000
	Accounting Loss on patent		150,000
	Tax Gain on Patent [S. 24 (9)]	(524,000 - 430,000)	65,000
	Accounting amortization		94,000
	Tax bad debt recovery - Atif [S.29 (3) (a)]	(W-2.1)	25,000
	Tax gain on disposal of furniture [S. 22 (14)]	(W-3)	450,000
	Accounting depreciation		240,000
			<u>580,450</u>

2,564,450

Less:	Accounting bad debt recovery - Atif		700,000
	Accounting bad debt recovery - Aslam		400,000
	Tax bad debt - Aslam [S. 29 (3) (b)]	(W-2.2)	200,000
			<u>(1,300,000)</u>

Profit before Tax Depreciation, tax amortization and Initial Allowance

3,064,450

Less:	Loss before depreciation	(-830,000 + 705,000)	<u>(125,000)</u>
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2,939,450

Less:	Tax depreciation (b/f)	<u>(705,000)</u>
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2,234,450

Less:	Tax Depreciation, tax amortization and Initial Allowance (c/y) (W-4)	<u>(667,650)</u>
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1,566,800**(W-2.1) Tax Bad debt Recovery-Atif**

Amount Recovered

700,000

Less: Actual Bad debt

800,000

Less: Previously allowed as deduction

(550,000)

Tax Bad debt Recovery

(250,000)450,000**(W-2.2) Tax Bad debt Recovery-Aslam**

Amount Recovered

400,000

Less: Actual Bad debt

1,200,000

Less: Previously allowed as deduction

(600,000)

Tax Bad debt Recovery

(600,000)(200,000)

(W-3) Tax Gain on Disposal of Furniture
Consideration
Less: WDV

(W-4) Tax Depreciation, amortization and Initial Allowance [S.22 & 23]
Tax Depreciation as per adjustment (vii)
Tax Depreciation on furniture
Initial allowance on machinery
Tax Depreciation on machinery

(W-5) Income from Capital Gain
Consideration Received
Less: Cost

Holding period more than 1 year

	850,000
	(610,000)
	<u>240,000</u>
$400,000 \times 15\% \times 50\%$	484,525
$(500,000 \times 25\%)$	30,000
$(500,000 - 125,000) \times 15\% \times 50\%$	125,000
	<u>28,125</u>
	<u>667,650</u>
	432,000
	(150,000)
	<u>282,000</u>
	<u>211,500</u>

Answer-25

Mr. Taqi Ahmed
Income and tax thereon
For TY 20X7

Calculation of taxable income and tax liability

Income from salary	(W-1)	7,788,000
Income from Other Source	(W-3)	410,000
Income from property	(W-2)	1,200,000
Income from capital gain – securities	(W-4)	375,000
Total Income		<u>9,773,000</u>
Income from capital gain – taxable separately		(375,000)
Taxable income under NTR		<u>9,398,000</u>
Tax liability - NTR		1,694,500
Add: Tax on separate block	$(1,345,000 + 1,398,000 \times 25\%)$	
- Tax on disposal of securities	$(375,000 \times 12.5\%)$	46,875
Add: Tax on final tax regime		
- Tax on Dividend	$[(159,375 / 85) \times 100] = 187,500 \times 15\%$	28,125
Total tax liability		<u>1,769,500</u>
Less: Tax deducted by ZTL on salary		(2,000,000)
Tax wrongly deducted on Dividend		<u>(28,125)</u>
Add: Tax credit disallowed [S. 62]		(258,625)
Tax Payable to/Refundable from Government		<u>90,000</u>
		<u>(168,625)</u>

(W-1) Income from salary

Basic Salary	[S. 12 (2) (a)]	$(*400,000 + (440,000 \times 11))$	5,240,000
Conveyance allowance	[S. 12 (2) (c)]	$(40,000 + (44,000 \times 11))$	524,000
Medical allowance		$(40,000 + (44,000 \times 11))$	524,000
Health insurance – Exempt being as per terms [2 nd Sch Cl. 139]			-
Daily allowance			40,000
Performance bonus (received in TY 20X8)			-
Loan Waived by ZTL	[S. 12 (9)]	$(50,000 \times 28 (W-5))$	1,400,000
Directors' Fee	[S. 12 (2) (a)]		60,000
			<u>7,788,000</u>

$*440,000/110 \times 100 = 400,000$

Chapter 19: Numericals Income Tax

(W-2) Income from property [S. 15(1)]

Gross rental

Less: Admissible deductions

Repair allowance

$$(1,800,000 - 25,000 \times 12)$$

$$(1,500,000 \times 1/5)$$

1,500,000

(300,000)

1,200,000

(W-3) Income from other sources

Rent of amenities and utilities connected with renting of building [S. 39 (1) (fa)]

Gross receipt

Less: Expenses

$$(25,000 \times 12)$$

(not given)

300,000

(0)

300,000

Prize bond [S. 39 (1) (h)]

110,000

410,000

(W-4) Tax on gain arose on disposal of securities [S. 37A]

Consideration on disposal

Less: Cost of shares

Gain

$$(15,000 \times 85)$$

$$(15,000 \times 60)$$

1,275,000

(900,000)

375,000

(W-5) No. of installments paid and waived

Months in TY 2005

Months in TY 2006

Months in TY 2007

Total installments paid

Installments waived (50 - 22)

(01/05/2005 to 30/06/2006)

(01/07/2006 to 30/06/2007)

(01/07/2007 to 28/02/2007)

2 months

12 months

*8 months

22 months

28

*Note: On 31 March 20X7 installments are waived so it means that no installment is paid in the month of March.

Qateel Enterprises
Income and tax thereon
TY 2021

Income from Business
Profit before tax

Add: Fine for violation of contract (allowed not being paid to Government) [S. 20(1)]
Accounting depreciation (including on leased assets)
Renewal of license – intangible
Vehicle tax paid (allowed even if paid in cash) [S. 20(1)] [S. 21(l)(v)]
Security deposit to KE
Advance tax collected by KE
Donation – poor families – not allowed
Zakat
Penalty paid to Govt. [S. 21(g)]
Entertainment (allowed because wholly and exclusively for business) [S. 21(d)]
Finance charges on lease

2,809,297

2,498,940

450,000

185,000

300,000

64,600

1,401,060

25,000

35,703

4,960,303

30,000

580,000

1,200,000

270,000

1,819,400

(3,899,400)

3,870,200

900,000

4,770,200

(1,501,060)

3,269,140

Less: Amortisation on license [S. 24(4)] (450,000/15 years)
Dividend Income – falling under FTR [S. 5]
Capital Gain on sale of shares
Lease Rentals [S. 28(1)(b)]
Tax depreciation [S. 22] (W-1)

Income from Capital Gain

(1,200,000 x 75%)

Total Income

Less: Zakat [S. 60] (100,000 + 1,401,060)

Taxable Income

Tax liability on income falling under NTR (SME) (3,269,140 x 7.5%)
Add: Tax on Dividend ((W-2) 800,000 x 15%)

245,186

120,000

365,186

(120,000)

(300,000)

(480,000)

(534,814)

Less: Tax on Dividend ((W-2) 800,000 x 15%)
Advance Tax paid to KE
Advance tax paid

Tax refundable to QE

(W-1) Calculation of tax depreciation
Depreciation on ware house
Depreciation on machine purchased
Tax Depreciation (given)

244,400

15,000

1,560,000

1,819,400

(W-2) Calculation of gross amount of dividend
Gross Dividend = Dividend Paid + Tax Deducted + Zakat Paid
X = 580,000 + 15% of X + 100,000
X - 15% of X = 680,000
0.85 X = 680,000
X (Dividend) = 800,000

Chapter 19: Numericals Income Tax

Answer-27

Mr. Ahmer Ghazi Computation of income and tax thereon For TY 20X8

Income from salary
Income from capital gain – Disposal of shares
Income from Other sources – From TV Channel
Income from property
Taxable Income under NTR

(W-1)
[S.37(3)] [60,000(W-3) x 75%]
[S.39(1)(b)]
(W-4)

Tax liability on income under NTR

Less: Tax credit on investment in new sukuks u/s 62
C is lower of: 1,400,000 or 20% of 11,913,333 or 2,000,000

Total tax liability

Less: Tax deducted by DPL

Tax Payable

(W-1) **Income from salary**

Basic salary

House rent allowance

Medical allowance

Health insurance- Exempt being as per terms

Production target reward

Interest on Loan outstanding

Withholding Tax reimbursed by employer

[S.12 (2)(a)] (650,000 x 12)
[S.12 (2)(c)] (95,000 x 12)
Clause 139 (70,000 x 12)
Clause 139
S.12(2)(a)
[S.13 (7)] (5,000,000 x 4% x 11/12)
[S.12 (2)(d)]

Rupees
11,387,333

45,000

225,000

256,000

11,913,333

2,323,333

(273,027)

2,050,306

(1,244,000)

806,306

7,800,000

1,140,000

840,000

180,000

183,333

1,244,000

11,387,333

(W-2) **Gain on release of restriction on shares already taken to income from salary on 31.12.x6 [S.14 (3)]**
FMV shares (10,000 x 23)

Less:

Cost of shares

Cost of right

230,000

230,000

(W-3) **Income from Capital Gain [S.14 (4)]**

Consideration received

Less:

Cost of shares

Cost of right

Income from salary

(6,000 x 33)

$\left(\frac{230,000 (W-2)}{10,000} \times 6,000\right)$

198,000

(138,000)

60,000

(W-4) **Income from Property**

Rental received

Less: Admissible deductions

Repair allowance

(40,000 x 8)

(320,000 x 1/5)

320,000

(64,000)

256,000

Chapter 19: Numericals Income Tax

Answer-28

Mr. Saleem Computation of taxable income and tax liability TY 2021

Income from Business	
Income from Capital gain – shares of private company	(W-1)
Income from Capital gain – securities	(W-2)
Total Income	(Note-1)
Less: Gain on disposal of securities – taxable separately	
Taxable income under NTR	
Tax liability on income under NTR	
Add: Tax on gain on disposal of securities	(620,000 + 316,544 x 30%)
Moon limited	[Note-1]
Planet limited	

Rupees
3,941,544
375,000

4,316,544

4,316,544

714,963

Tax payable to Government

Items not included in computation of taxable income

[Note-1] There is a net loss of Rs. 450,000 on the disposal of securities as computed below:

Loss on sale of shares of Moon Limited [S. 37A(5)]

Gain on sale of shares of Planet limited [S. 37A(5)]

Loss (700,000)

250,000

(450,000)

(W-1) Income from Business

Accounting profit

Add:

Annual rent

Accounting depreciation of car [S.21(c)]

Financial charges

2,162,500

1,560,000

600,000

462,000

2,622,000

Less:

Accounting gain on vehicle

Loss on disposal on vehicle

Lease rentals paid

Net accounting Gain on the sale of all shares [S.28 (1)(b)] (857,000 x 70%)

12,500

180,556

599,900

50,000

(842,956)

3,941,544

Income from business

(W-1.1) Disposal of passenger transport vehicle [S. 22(13)(a)]

Consideration on disposal

Less: Tax Written down value on Disposal [3,500,000 x (2,500,000/4,500,000)]

Tax Loss on disposal (W-1.2)

1,944,444

(2,125,000)

(180,556)

(W-1.2) Tax Written down value (WDV)

Restricted cost -TY 2020

Less: Tax depreciation -TY 2020 (2,500,000 x 15%)*

Tax WDV

2,500,000

(375,000)

2,125,000

*As asset is purchased before 1 July 2020, so 50% factor for charging depreciation is not applied.

(W-2) Income from Capital gain

Sun (Private) Limited

(500,000 x 75%)

375,000

Chapter 19: Numericals Income Tax

Answer -29

Saeed
Income & Tax thereon
For tax year 20X9

Income from salary HPL

Total income

Less: Deductible allowances:

Zakat paid

(W-1)

[S.60]

Less: Interest on loan from scheduled bank (lower of): [S.60C]

- 25,000,000 x 15% x 7/12 = 2,187,500

- 50% x 6,049,000 = 3,024,500

- 2,000,000

Taxable income

(370,000 + 20% x 549,000)

Tax liability

Add: Tax on final tax regime

- Tax on dividend income

(W-2)

Total tax liability

Less: Tax already deducted

- Tax on dividend

- Tax withheld on salary

Net tax refundable

Workings

(W-1) Income from salary - HPL

Basic salary

[S.12(2)(a)]

(600,000 x 9)

Medical allowance

[S.12(2)(c)]

(66,000 x 9)

594,000

Less: Exempt upto 10% of basic salary

[2nd Sch. Clause 139]

(5,400,000 x 10%)

(540,000)

Bonus (received after year end)

[S.12(1)]

Company maintained cars:

[S.13(3)]

- For official use costing Rs. 3,500,000

- For personal use (1,900,000 x 10% x 9/12)

142,500

Free food provided in lunch

[S.13(13)]

80,000

Special allowance of Rs. 5,000 p.m x 9 months (for official duties)

45,000

Provident fund:

- Employee contribution

- Employer contribution (60,000 x 9)

540,000

Less: Exempt upto lower of

- 1/10 x 5,400,000 = 540,000

- 150,000

(150,000)

390,000

6,111,500

(W-2) Tax on dividend income

Net dividend = Gross dividend - Zakat - income tax

575,000 = x

0.85x = 637,500

x = 637,500

x = 637,500

Gross dividend = 750,000

Tax @ 15% = 750,000 x 15% = 112,500

Chapter 19: Numericals Income Tax

Answer-30

Mr. Amjad Computation of taxable income For tax year 2021

		Rupees
Income from other sources		
Factory building at Sukkur – Basit	(W-1)	950,000
Income from property	(W-2)	7,850,000
Income from capital gain		
Gain on disposal of plot in Quetta (Exempt as holding period exceeds 4 years)		8,800,000
Total Taxable income – taxable under NTR		
(W-1) Income from other sources (Sukkur Factory)		3,000,000
Rental Income	(500,000×6)	
Less: Admissible expenses		270,000
Repair to building	[S.40(1)]	50,000
Repair to machinery	[S.40(1)]	50,000
Ground rent	[S.40(1)]	150,000
Insurance – Building	[S.40(1)]	900,000
Tax Depreciation: Building – Normal dep.	[S.40(3)] [Rs. 18mill. @ 10% x 50%]	450,000
Plant (N-1) – Normal dep.	[S.40(3)] [Rs. 6mill. @ 15% x 50%]	180,000
Interest on loan from Shamshad	[Rs. 2mill. @ 18% x 6/12]	(2,050,000)
		950,000
Net Income		
(W-2) Income from property		3,600,000
Rental Income		5,000,000
Residential property at DHA – Karachi	(300,000×12)	8,600,000
Amount forfeited from Zeeshan		(720,000)
Gross rent chargeable to tax		(10,000)
Less: Admissible deductions	(3,600,000 x 1/5)	(20,000)
Repair allowance		7,850,000
Ground rent		
Insurance building		

Note-1: As plant is already installed so no initial allowance is calculated.

Answer -31

Note for students:

If method of accounting is changed from cash to accrual basis, opening stock of current year will actually be the closing of previous year (calculated using prime cost method) thus there will be no error in the opening stock given in question. However at year end, the closing stock should be calculated using absorption cost method.

Shahid Enterprises
Income and tax thereon
For the tax year 30 June 2022

		Rs. '000'
Income from business	(W-1)	5,269
Income from capital gain – securities	(45 + 6.75)	51.75
Total income		5,320.75
Less: Gain on disposal of securities – taxable separately		(51.75)
Total income under NTR		5,269
Less: Zakat	[S.60]	(93.75)
Taxable income		5,175.25
Tax liability (5,175.25 x 7.5%) [SME rates are applied]		388.00
Add: Tax liability on separate block		
Tax on disposal of securities	[(45 + 6.75) = 51.75 x 12.5%]	6.47
Total tax liability		394.47
Less: Tax already deducted:		
Tax deducted by customers		(875.00)
Tax deducted on securities		(6.75)
Net tax liability		(487.28)
Add: Tax credit disallowed	[S.62]	15.00
Tax payable/(refundable)		(472.28)
(W-1) Income from business		
Profit before tax		5,927
Add: Inadmissible deductions/Adjustments		
Adjustment of closing stock (3,200 - 2,800)	[S.35]	400
Payment without deduction of tax	[S.21(c)] (W-2)	440
Freight charges paid in cash of Rs. 85 (Allowed)	[S.21(l)]	-
Salary paid to shahid brother of Rs. 80 p.m. (allowed)		-
Capital expenditure	[S.21(n)]	950
Penalty	[S.21(g)]	15
		1,805
Less: Admissible deductions/Adjustments		
Capital gain		(45)
Rent from agriculture land	[S.41]	(980)
Profit before depreciation		(1,025)
Less: Tax depreciation (b/f)		6,707
Less: Tax depreciation (c/y) [W-3]		(568)
Income from business		6,139
(W-2) Packing Material		(870)
Purchases disallowed (lower of):		5,269
- Purchases on which tax not deducted; or		
- 20% of total purchases (20% x 2,200)		
(W-3) Current Year Tax Depreciation and Amortization		
Tax Amortization (950/5)	2,200	440
Tax depreciation	440	190
		680
		870

Mr. Sageer
Income and tax thereon
For TY 2020

		Rs.
Income from salary	(W-1)	4,045,000
Income from capital gain – Disposal of securities (Sep. block)	(W-2) (N-1)	-
Income from capital gain – Disposal of immoveable property (Sep. block)	(W-3)	750,000
Income from business – Foreign source income	(W-4)	777,913
Total income		5,572,913
Less: Income from capital gain – immoveable property		(750,000)
Total income		4,822,913
Less: Zakat		(1,446,874)
Taxable income under NTR		3,376,039
Tax liability on income under NTR $(195,000 + 876,039 \times 17.5\%)$		348,307
Less: Tax reduction because of full time teacher $[370,000 + (20\% \times 545,000)] = 479,000 \times 25\%$		(119,750)
		228,557
Less: Foreign tax credit on income from business (lower of):		
- Pakistani average rate of tax $(228,557/3,376,039) \times 777,913 =$	52,664	
- Foreign income tax paid (W-4)	62,233	(52,664)
		175,893
Add: Tax on Separate block income		
- Gain on disposal of immoveable property	$750,000 \times 3.5\%$	26,250
Total tax payable		202,143
Less: Tax deducted on salary		(160,000)
Tax payable to/refundable from Government		42,143

(N-1) Loss on disposal of securities amounting to Rs. 35,000 can be carried forward to three subsequent tax years.

WORKINGS

(W-1) Income from salary			2,400,000
Basic Salary [S.12(2)(a)]	$(200,000 \times 12)$		240,000
Medical allowance (Fully taxable)[S.12(2)(c)]	$(20,000 \times 12)$		-
Insurance premium (as per terms)	(Exempt)		-
Accommodation provided [S.13(12)]		1,080,000	
Higher of:		960,000	1,080,000
- 45% of basic salary	$(2,400,000 \times 45\%)$		-
- Fair market rent of accommodation	$(80,000 \times 12)$	180,000	
Employee contribution	$(15,000 \times 12)$		
Employer contribution to provident fund			
Less: Exempt up to lower of:			30,000
- 10% of basic salary + dearness all.		(150,000)	
- $(10\% \text{ of } 2,400,000 = 240,000) \text{ or } 150,000$			
Shares acquired under scheme [S.14(2)]		1,420,000	
Fair market on date restriction released	$(10,000 \times 142)$	(1,050,000)	195,000
Less: Cost of shares	$(10,000 \times 105)$	(175,000)	-
Less: Cost of rights			100,000
Interest benefit [S.13(7)] (Exempt because similar benefit provided by employee)			4,045,000
Leave encashment			

Chapter 19: Numericals Income Tax

(W-2) Gain/loss on disposal of securities – Income from capital gain

Consideration received
Less: Cost
Cost of shares
Cost of right
Amount charged under salary

(5,000 x 135)

1,050,000
175,000
195,000
1,420,000

675,000

(1,420,000 x 5,000/10,000)

(710,000)
(35,000)

(W-3) Gain/loss on disposal of immovable property – Income from capital gain

Loss on disposal of securities
Gain on disposal of house in Karachi
Gain on disposal of inherited property

(15,000,000 – 14,000,000) x 3/4
(Exempt as holding period exceeds 4 years)

750,000

750,000

(W-4) Income from Business – Foreign Source

Net income
Add: Withholding tax

(USD 4,260 x 168)
(715,680/92 x 8)

715,680

62,233

777,913

Answer-33

(a)

Farheen Computation of Income For TY 2020

Income from property
Income from other sources
Total income

(W-1)

(W-3)

Rupees

1,976,000

3,690,000

5,666,000

(W-1) Income from property

Rent from Bungalow - Abbas
Rent from Bungalow - Zafar
Non-adjustable security deposit - Zafar

[175,000 x 9]

[175,000 x 3]

(W-2)

1,575,000

525,000

150,000

2,250,000

176,000

2,426,000

Forfeiture of deposit for sale of plot
Gross rent chargeable to tax
Less: Admissible deductions
Repair allowance

[2,250,000 x 1/5]

(450,000)

1,976,000

(W-2) Non-adjustable advance

Received from Zafar
Less: Already taxed

2,500,000

- In TY 2016
- In TY 2017
- In TY 2018
- In TY 2019

(2,500,000/10)

(2,500,000/10)

(2,500,000/10)

(2,500,000/10)

(250,000)

(250,000)

(250,000)

(250,000)

1,500,000

/10 150,000

(W-3) Income from other sources

Security guard's salary
Less: Payment for security services

[50,000 x 12]

[40,000 x 12]

600,000

(480,000)

120,000

Deposit for vacating the office
Rentals from lease of factory with machinery
Additional payment of delayed refund
Income from other sources

[(2,400,000 – 2,000,000)/10]

[500,000 x 7]

[S.39(1)(cc)]

40,000

3,500,000

30,000

3,690,000

Ahmed is a returning expatriate because he was not a resident in any of the preceding four tax years. Therefore, his foreign source income for the tax year 2020 from the restaurant is exempt. [S.51 (1)]

(i) Salary exceeding Rs. 25,000 per month should be paid through cheque or direct transfer to the employees' bank account after deduction of tax (if any), to claim it as a deduction from income from business. In this case, although Ahmed had deducted tax at source from salaries, however he paid the monthly salary of Rs. 70,000 $((840,000/2)/6)$ to each employee in cash. Therefore, this expense will be disallowed.

(ii) Cost of feasibility study conducted before commencement of the business falls under the definition of pre-commencement expenditure on which 20% amortization is charged on straight line bases. Therefore, the full amount of this cost will be disallowed and Ahmed will only be allowed a deduction of Rs. 120,000 $(600,000 \times 20\%)$ as amortization.

(iii) Donation to non-profit organization in USA

No tax credit will be allowed for **donation paid to the non-profit organization in USA** because it does not fall under the definition of non-profit organization as per the Income Tax Ordinance, 2001.

A tax credit under section 61 on the donation paid will be allowed if donation is made to Government hospital or to a hospital listed in 13th Schedule.

FREQUENTLY ASKED QUESTIONS

1. If word 'earned' is mentioned in question with dividend/interest income, it means it is gross amount (before deduction of tax). For calculating tax, simply apply rate on this gross amount of dividend/interest.
2. In 'Income from property (IFP)' numerical, 'interest on house loan (profit on debt)' will be treated as a deduction under IFP instead of deductible allowance because deduction is more beneficial for the taxpayer.
3. If director is an employee of the organization, director's fee will be added in his Income from salary, otherwise it will be included in his Income from other source.
4. Loss on "securities" can be carried forward for 3 tax years while loss on "capital asset" falls under normal tax regime, therefore it can be carried forward for 6 tax years.
5. If the question is silent about the company whether it is public or private, then it will be considered as private company.
6. "Gain on disposal of capital assets is restricted to 75% if holding period is more than one year". This provision is only applicable where income from capital gain falls under normal tax regime (private company shares, jewelry etc.). This 75% provision is not applicable in case of separate block incomes such as gain on sale of immoveable property or gain on securities.
7. Interest income may be included in 'other income' or may be net off in 'financial charges' by accountant while preparation of profit and loss by accountant.
8. In case of calculation of income under the head 'Income from salary',
 - i. car benefit (car provided by employer to employee) and
 - ii. interest benefit on loanwill be apportioned on the basis of months (For example 7/12 or 5/12 etc.)
9. Holding period of shares acquired under employee share scheme shall be calculated from the date we acquired the shares or purchased the shares or exercised the right and not the date when the restriction was released.
10. If in question, you are supposed to calculate minimum tax then you will compare the tax liability after allowing foreign tax credit and tax credit under S.61-63.
11. If an author has received any amount as royalty income, it will be taxable in current tax year (year of receipt) and previous 2 tax years. This means, he will revise the return for previous 2 tax years.
12. In calculating Income from property, repair allowance at 1/5 of gross rent chargeable to tax will be allowed even if no repair expense is given in question.
13. Personal moveable asset such as dining table, bicycle, chair, furniture, car etc. if disposed, the gain is not chargeable under any of the head.
14. If an employer provides health insurance benefit to employee, then it will be dealt in accordance with chapter 'Income from salary'. However, if employee is paying his health insurance premium **himself** then a tax credit will be allowed under Sec 62A.
15. Loss on disposal of immoveable property (separate block) is not carried forward.

**SUMMARIES OF VARIOUS
TOPICS**

20

CHAPTER 20

SUMMARIES OF VARIOUS TOPICS

INCOME FROM SALARY

Basis of Taxation: Receipt basis

Deductions: No deductions are allowed under the head 'Income from Salary'.

Items	Treatment
1. Pay, wages, leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements	Fully taxable
2. Reimbursement of expenses to employee	Fully taxable. However expenses reimbursed to meet official duty are not taxable.
3. All cash allowances (other than medical allowance) e.g. education allowance, house rent allowance, utility allowance, subsistence allowance etc.	Fully taxable. However allowances paid to meet official duty are not taxable.
4. Amount paid to enter into employment relationship	Fully taxable
5. Amount paid to fulfill any conditions of employment	Fully taxable
6. Amount paid on termination of employment (including golden hand shake receipts)	<u>Two options</u> <ol style="list-style-type: none"> 1. Treat in normal way as a part of calculation of taxable income 2. Tax this amount on the basis of last three years average tax rate
7. Amount paid as for agreeing against a restrictive covenant	Fully taxable
8. Employee Contribution in recognized provident fund	No separate treatment
9. Employer Contribution in recognized provident fund	Exempt up to lower of: <ul style="list-style-type: none"> • 1/10th of basic salary + dearness allowance or • Rs. 150,000
10. Interest credited in recognized provident fund	Exempt up to higher of: <ul style="list-style-type: none"> • 1/3th of basic salary + dearness allowance or • Interest calculated @ 16%
11. Receipt of Accumulated balance from recognized provident fund	Fully exempt
12. Employee Contribution in un recognized provident fund	No separate treatment
13. Employer Contribution in unrecognized provident fund	No treatment
14. Interest credited in unrecognized provident fund	No treatment
15. Receipt of Accumulated balance from unrecognized provident fund	Employer Contribution + Interest is fully taxable
16. Arrears received	Refer the chapter
17. Interest benefit in respect of interest free loan provided to employee	Interest calculated @ 10% is taxable.
18. Interest benefit in respect of loan provided at interest rate which is lower than benchmark rate	Interest calculated @ (10% - interest rate charged by employer) is taxable.
19. Loan provided at interest rate which is equal to or greater than benchmark rate	No interest benefit arising so nothing is taxable

20. Conveyance provided to employee partly for personal and partly for official use	5% of cost or FMV of vehicle depending on whether it is purchased or taken on lease respectively
21. Conveyance provided to employee solely for personal use	10% of cost or FMV of vehicle depending on whether it is purchased or taken on lease respectively
22. Conveyance provided to employee solely for business use	No treatment
23. Services of a housekeeper, driver, gardener or other domestic assistant are provided to employee	Total salary paid to these persons by employer less amount paid by employee to employer for receiving these services is taxable
24. Utility services provided	fair market value of the utilities provided less amount paid by employee to employer for receiving these services is taxable
25. Waiver of loan payable by employee to employer	Amount of loan waived is taxable
26. Liability of employee towards any third party paid by employer	Amount paid by employer is taxable
27. Where employer transfers any property to employee (e.g. house, car, fridge etc.)	FMV of asset transferred less amount paid by employee to employer
28. House provided/ Accommodation provided	Higher of following amounts is added: <ul style="list-style-type: none"> - 45% of basic salary or - Amount that would have been paid had no accommodation been provided by employer
29. Pension	Fully exempt subject to the condition that person is citizen of Pakistan. Where more than 1 pension is received by a citizen of Pakistan than higher amount of pension will be exempt.
30. Government employees: Gratuity Commutation of pension	Fully exempt subject to certain conditions
31. Non-Government employees: Gratuity fund approved by Commissioner or Gratuity scheme approved by FBR	Fully exempt
32. Non-Government employees: Unapproved gratuity received or Unapproved commutation of pension	Exempt up to Rs. 300,000 subject to certain conditions
33. Free or concessional services provided by transporters, hotels, educational institutes and hospitals to its employees	Exempt up to lower of: <ul style="list-style-type: none"> - 50% of amount received or - Rs. 75,000 (Subject to certain conditions)
34. Gain on disposal of rights acquired under an employee share	Fully exempt subject to certain conditions
35. Shares acquired under an employee share scheme without any restriction on transfer	Following is taxable: - Consideration received against disposal of right - Cost paid to acquire right
36. Shares acquired under an employee share scheme with restriction on transfer (Shares are in the possession of employee till the date he has free right to transfer the shares)	Following is taxable: FMV of shares at the date of acquisition of shares - Cost paid to acquire shares - Cost paid to acquire right
37. Shares acquired under an employee share scheme with restriction on transfer (Shares are disposed off by employee before the date he has free right to transfer the shares)	Following is taxable: FMV of shares at the date employee has free right to transfer the shares - Cost paid to acquire shares - Cost paid to acquire right
	Following is taxable: FMV of shares at the date employee has free right to transfer the shares - Cost paid to acquire shares - Cost paid to acquire right

Chapter 20: Summaries of Various Topics

Basis on which Foreign Source Salary income is exempt

Ref.	Scenario	Treatment
Situations under which payment of foreign tax on salary is mandatory for availing exemption		
102(1)	Foreign source salary received by a resident individual	Exempt
Situations under which payment of foreign tax on salary is not mandatory for availing exemption		
51(2)	Foreign source salary earned by a citizen of Pakistan who leaves Pakistan during a tax year and remains abroad during that tax year	Exempt
51(1)	Foreign source salary income derived if the person receiving this income is a returning expatriate i.e. a person remains abroad for last preceding 4 years	Exempt in the year in which he became resident and the following tax year only.

With holding agent: Employer whether it be individual, AOP or Company is required to deduct tax on the salary income of employee.

INCOME FROM PROPERTY

“Rent” means:

- any amount received or receivable by the owner of land or a building against use of the land or building, and
- any forfeited deposit paid under a contract for the sale of land or a building.

Items	Treatment
Monthly rental of land or building	Taxable (higher of following): - Actual rent received - Fair market rent
Adjustable advance received from tenant at the time of handing over the property	No treatment because automatically taxed by becoming the part of monthly rental income
Non-Adjustable (and refundable) advance received from tenant at the time of handing over the property	Taxable in 10 equal yearly installments. However, if the tenancy changes hands then from the amount received from new tenant the amounts already taxed in respect of advance received from previous tenants will be deducted. The figure arrived out as above will be taxable in 10 equal yearly installments
Forfeited deposit paid under a contract for the sale of land or a building	Fully taxable in the year of receipt

Exclusions from property income

Following amounts are not chargeable under the head income from property rather they will chargeable under the head income from Other Sources:

- Rent received for the provision of amenities, utilities or any other service connected with the renting of the building.
- Rent received in respect of the lease of a building together with plant and machinery.

INCOME FROM CAPITAL GAIN

Capital Asset	Tax treatment on disposal	
A company that does not fall under public company definition	- 75% gain is chargeable - 100% loss is allowed as deduction	Loss can be carried forward
Holding period > 12 months	- 100% gain is chargeable - 100% loss is allowed as deduction	
Holding period < 12 months	- 100% gain is chargeable - 100% loss is allowed as deduction	
Jewelery, painting, sculpture, drawing or other work of art, a rare manuscript, folio or book, a postage stamp, first day cover, a coin, medallion and an antique:		
Holding period > 12 months	- 75% gain is chargeable - Loss is not allowed as deduction	
Holding period < 12 months	- 100% gain is chargeable - Loss is not allowed as deduction	
An asset on whom gain on disposal is exempt	- Gain is not chargeable - Loss is not allowed as deduction	
Immoveable property (As per Chapter 10)		
Securities (As per Chapter 10)		

Determination of Cost of Capital asset in special cases

Scenario	Method of determining cost
If the capital asset is received by a person as: <ul style="list-style-type: none"> • Gift from a relative • Under a will • From AOP by its member on liquidation of AOP • From company by its member on liquidation of company 	FMV on the date the asset is transferred
If the shares are received by an employee under employee share scheme	<ul style="list-style-type: none"> • Cost paid by employee to acquire shares • Cost paid for acquiring right • Amount charged to tax under the head salary (In other way: FMV of the shares on the date these become chargeable under the head salary)

INCOME FROM OTHER SOURCE

Item	Tax Treatment
Additional payment on delayed refund under any tax law.	Fully taxable
Ground rent	Taxable after deducting relevant expenses
Rent from the sub-lease of land or a building	Taxable after deducting relevant expenses
Income from the lease of any building together with plant or machinery	Taxable after deducting relevant expenses such as depreciation etc.
Income from provision of amenities, utilities or any other service connected with renting of building	Taxable after deducting relevant expenses
Loan received in cash (other than from bank)	Fully Taxable
Gift received in cash	Fully Taxable
any other amount received as consideration for the provision, use or exploitation of property, including from the grant of a right to explore for, or exploit, natural resources	Fully Taxable
Any gift received from person other than relatives	Fully Taxable
the fair market value of any benefit, whether convertible to money or not, received in connection with the provision, use or exploitation of property	Fully Taxable
any amount received by a person as consideration for vacating the possession of a building or part thereof, reduced by any amount paid by the person to acquire possession of such building or part thereof	the amount shall be chargeable in the tax year in which it was received and the following nine tax years in equal proportion.

NOTICES REQUIRED TO BE ISSUED BY COMMISSIONER (CH - 15)

Section	Scenario	Due date for compliance	Maximum time with in which Commissioner can issue notice	Consequences on not complying with the notice
114(3)	Notice to file a return for a period of less than 12 months	Return is to be filed by the date specified in the notice		S.121 (1) (ab) Best judgment assessment
114(4)	Notice to file a return of income to a person who has not filed it	Return is to be filed within 30 days from the date of service of notice	Notice may be issued in respect of any of the last 5 completed tax years	S.121 (1) (ab) Best judgment assessment
116(1) 118(4)	Notice to file wealth statement	By the due date specified in the notice		S.121 (1) (c) Best judgment assessment
117(3)	Notice to furnish the return where person has not informed Commissioner about discontinuance of business	By the due date specified in the notice		
120(5) 120(6)	Notice to taxpayer where the return of income furnished is not complete (discussing the deficiencies)	By the due date specified in the notice	Notice can be issued within 180 days from the end of financial year in which the return is furnished	S. 120(4) Return will be treated as invalid

ORDERS REQUIRED TO BE PASSED BY COMMISSIONER (CH - 15)

Section	Scenario	Period with in which order is to be issued
121(1),(3)	Assessment order in which best judgment assessment is made	Only be issued within 5 years after the end of the tax year to which it relates
122(2)	Amended assessment order (Making first amendment)	5 years from the end of the financial year in which the Commissioner has issued or is treated as having issued the original assessment order
122(4)	Amended assessment order (Making second or subsequent amendment)	later of – (a) 5 years from the end of the financial year in which the Commissioner has issued or is treated as having issued the original assessment order; or (b) 1 year from the end of the financial year in which amended assessment order was passed.
221	Order in which a mistake is rectified	An order under can be passed within 5 years from the date of the order which is required to be rectified.
122A	Order of revision	
122C	Provisional assessment order in case return is not filed after receiving notice	
123	Provisional assessment order in case of concealed asset	
125	Assessment order in relation to disputed property	Within 1 year after the end of the financial year in which the decision of the Court is made.
124(1)	Assessment order or amended assessment order is to be issued to give effect to an order passed appellate authority	The Commissioner shall issue the order within 2 years from the end of the financial year in which the order of the appellate authority is served on the Commissioner
124(2)	Assessment order required to be issued where an assessment order has been set aside by any appellate authority	The new order will be passed within 1 year from the end of the financial year in which the order of appellate authority was served
124(4)	Assessment order required to be issued Where direct relief is provided by CIR(A) or ATIR	The Commissioner shall issue appeal effect order within 2 months of the date the order is served on the Commissioner

FORMAT FOR NUMERICAL OF INDIVIDUAL IN INCOME TAX

Resident Individual

Income from salary	
Income from business (including foreign source)	
Income from capital gain (including foreign source)	
Income from other source (including foreign source)	
Income from property (including foreign source)	
Total Income	()
Less: Income taxable under separate block	()
- Gain on securities	
- Gain on disposal of immoveable property	
Less: Zakat	()
Less: Profit on debt on house loan	()
Less: Education expenses of children	()
Taxable income under NTR	
Gross Tax liability on income falling under NTR	xxx
Less: Foreign tax credit	(xxx)
Tax liability after foreign tax credit	xxx
Less: Tax credit u/s 61-63	(xxx)
Net Tax liability under NTR	(A) xxx
Add: Tax on separate block	
- Tax on securities	xxx
- Tax on disposal of immoveable property	xxx
	(B) xxx
Add: Tax on final income	
- Tax on dividend income	xxx
	(C) xxx
Total tax liability (A + B + C)	xxx
Less: Taxes deducted/ collected	xxx
- Tax deducted on dividend income	
- Tax deducted on salary be employer	xxx
- Advance tax paid on income from business	xxx
Add: Tax credit disallowed u/s 62	(xxx)
Tax payable to Government	xxx
	xxx

**PRACTICE QUESTIONS
INCOME TAX**

21

CHAPTER 21
PRACTICE QUESTIONS INCOME TAX
QUESTIONS

Question-1

Mr. Amjad has been living in Ghana since 2002. He came back to Pakistan on August 14, 2010. He has following information for TY 2011:

Business Income	PSI	FSI
Capital gain	(346,000)	460,000
No tax has been paid on both of foreign source incomes.	900,000	380,000
Calculate his tax liability?		

Question-2

Mr. Hannan has been living in Ghana since 2002. He came back to Pakistan on March 14, 2011. He has disclosed following information for TY 2011:

Business Income	PSI	FSI
Capital Gain	(346,000)	460,000
No tax has been paid on both of foreign source incomes.	900,000	380,000
Calculate his tax liability?		

Question-3

Mr. Syed Aamir Ali has following incomes

Business Income – PSI	Rs.
Business Income- FSI	600,000
	350,000

1. Actual foreign tax paid on FSI is Rs. 90,000.
 2. He has also received Rs. 200,000 as share of profits from an AOP in which he is a member.
 3. He has also paid donation to approved charitable organizations amounting to Rs. 25,000.
 4. Zakat paid during the year is Rs. 18,000.
- Calculate his tax liability?

SOLUTIONSAnswer-1Taxable income and tax liability

Capital gain

Business Income

Taxable income

Tax liability [5% x 154,000]

As per 51(1) foreign source income is exempt. Write down the complete provision in exam.

PSI
900,000
(346,000)
554,000
7,700

Answer-2Taxable income and tax liability

Capital gain

Business Income

Taxable income

Tax liability [5% x 154,000]

The foreign source income of non-resident is not chargeable to tax.

PSI
900,000
(346,000)
554,000
7,700

Answer-3

Business Income – PSI

Business Income – FSI

Total Income

Less: Zakat

Taxable Income

Add: Share of profit from AOP for rate purpose

Taxable income for rate purpose

600,000
350,000
950,000
(18,000)
932,000
200,000
1,132,000

Tax liability [10,000 + 10% x 532,000]

Actual Tax liability on 932,000

$$\left(\frac{63,200}{1,132,000} \times 932,000 \right)$$

63,200

52,034

Less: Foreign tax credit - Lower of:

- Actual foreign tax paid

- Tax at average rate $\left(\frac{52,034}{932,000} \times 350,000 \right)$

90,000

19,541 (19,541)

Less: Tax credit on donations

$$\frac{A}{B} \times C = \frac{63,200}{1,132,000} \times 25,000$$

C is lower of:

- Actual amount of donation

- 30% of taxable income

(932,000 x 30%)

25,000

Payable to Government

279,600

32,493
(1,396)

31,097

LECTURE NOTES

Question-1 (Home Work)

On 1 July 2018 Sultan received following payments from his previous employer Naughty Hospital Limited:

- Rs. 600,000 in respect of termination benefits under an agreement
- Rs. 900,000 against recognised provident fund

He worked in Naughty Hospital Limited till 30 June 2018.

Then Sultan got a job as electronic engineer with Ansari Electrical Company Limited (AECL) w.e.f 1.7.18. The company is listed in Lahore stock exchange. He has provided you with the following information for the tax year ended 30 June 2019:

(a) His monthly cash remuneration in AECL is as follows:

	Rupees
Basic salary	480,000
Medical allowance	48,000
Utilities allowance	55,000

(b) He was also provided the following benefits in accordance with the terms of his employment:

- Rent free accommodation.
- Hospitalization cost is covered by an insurance policy upto the amount of Rs. 1.5 million. The insurance premium relating to this benefit amounted to Rs. 55,000.
- Employer provided a loan to employee of Rs. 1,200,000 at 3% mark-up for construction of his house.

Other information:

- Apart from his employment, Mr. Sultan also organized events for private clients. He received a total of Rs. 1,000,000 from such clients. However, he incurred an overall loss of Rs. 350,000 on organizing these events. It is to be classified as income from other source.
- He sold shares of a private company at a gain of Rs. 50,000. He suffered a loss of Rs. 170,000 on sale of other private company shares. Holding period in both cases is 6 months.
- He earned Rs. 40,000 from a business in Sialkot.
- On 1 January 2017 Sultan purchased 35,000 listed shares in Muft Limited (ML) at a price of Rs. 25 per share. On 20 March 2019 he fully subscribed 15% right shares offered by ML to its existing shareholders at a price of Rs. 20 per share.
- Sultan had purchased a house in December 2017 for Rs. 20 million. On 1 July 2018, Sultan entered into an agreement with Zameer for sale of the house for Rs. 25 million. As per the terms of the agreement, Sultan received Rs. 4 million on the day the contract was signed and balance amount was to be paid on 30 September 2018. However, due to financial difficulties, Zameer failed to pay the balance amount on the due date and consequently, Sultan forfeited the advance in accordance with the terms of the agreement. On 15 February 2019 Sultan sold the house to Farid for Rs. 30 million.
- He paid Zakat of Rs. 4,000,000 under Zakat & Ushr Ordinance.

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute the taxable income and tax thereon for the tax year 2019.

Note: show all relevant exemptions, exclusions and disallowance.

Previous 3 years average tax rate is 1%.

Answer-1

Mr. Sultan
Taxable Income and Tax Liability
For the Tax Year 2019

	Rs
Income from salary (W-1)	10,272,000
Income from Business (W-4)	40,000
Income from other source-loss (W-2)	(350,000)
Income from capital gain (W-3)	-
Disposal of immoveable property (W-6)	7,500,000
Income from property (W-5)	4,000,000
Total Income	21,772,000
Less: Disposal of immoveable property – separate block	(7,500,000)
Less: Termination benefit – separate block	(600,000)
Total income	13,672,000
Less: Zakat	(4,000,000)
	9,672,000
Less: Interest on House Loan	
Lower of	
- Actual = 36,000 (1,200,000 x 3%)	
- 50% of Taxable Income (50% x 9,672,000) = 4,836,000	(36,000)
- 2,000,000	9,636,000
Taxable Income	1,754,000
Tax (NTR) - Gross (1,345,000 + 25% x 1,636,000)	
Less: Tax Credit u/s 62	(19,112)
- A / B x C = (1,754,000 / 9,636,000) x 105,000	
C is lower of:	
- (35,000 x 15%) x 20 = 105,000	
- 20% of Taxable income (20% x 9,636,000 = 1,927,200)	
- 2,000,000	
Tax (NTR) – Net	
Add: Tax on separate block	
- Tax on Disposal of immoveable property (W-6)	(A) 1,734,888
- Tax on Termination benefit (600,000 x 1%)	(B) 562,500
(assuming favorable)	6,000
Add: Tax on dividend	(C) 568,500
Total Tax Liability (A+B+C)	2,303,388
Less: Taxes already deducted	
Tax deducted on dividend	
Withholding Tax deducted by employer on salary	
Tax Payable/ Refundable From Government	2,303,388
Carry Forward/Dead losses	

Chapter 21: Practice Questions Income Tax

Loss from capital gain C/F

Loss from other Source (Dead loss) 310,000

120,000

(W-1)

Income From Salary

Termination Benefits (Separate block)

600,000

Recognized Provident Fund 900,000 (Accumulated Balance) (Exempt)

Basic Salary

(480,000 x 12)

5,760,000

Medical Allowance

(48,000 x 12)

576,000

Utility Allowance

(55,000 x 12)

660,000

Medical facility – Exempt

Accommodation Provided (45% of Basic Salary) (45% x 5,760,000)

2,592,000

Interest Benefit (7% x 1,200,000)

84,000

Total Income

10,272,000

(W-2)

Income From Other Source

Loss from Events

(350,000)

(W-3)

Income From Capital Gain

Gain from sale of pvt co. shares

50,000

Loss from sale of pvt co. shares

(170,000)

(120,000)

(W-4)

Income from Business

Sialkot

40,000

(W-5)

Income from property

Forfeited deposit

4,000,000

(W-6)

Disposal of immoveable property

7,500,000

Gain $(30,000,000 - 20,000,000) \times \frac{3}{4}$

562,500

Tax on disposal of immoveable property $(7,500,000 \times 7.5\%)$

Points to be discussed

1. If a person is an employee in a public company than interest on loan given by employer will have two fold effect.
2. In a full length numerical you can assume that golden hand shake is feasible as separate block.

1. Short title, extent and commencement [Sec.1]
2. Definitions [Sec. 2]
3. Scope of tax [Sec.3]
4. Collection of excess sales tax etc [Sec.3B]
5. Zero rating [Sec. 4]
6. Change in the rate of tax [Sec. 5]
7. Time and manner of payment [Sec. 6]
8. Determination of tax liability [Sec. 7]
9. Levy and collection of tax on specified goods on value addition [Sec.7A]
10. Tax credit not allowed [Sec. 8]
11. Joint and several liability of registered persons in supply chain where tax unpaid [Sec.8A]
12. Adjustable input tax [Sec.8B]
13. Debit and credit note [Sec. 9]
14. Refund of input tax [Sec. 10]
15. Assessment of Tax and recovery of tax not levied or short-levied or erroneously refunded. [Sec. 11]
16. Short paid amounts recoverable without notice [Sec.11A]
17. Assessment giving effect to an order [Sec. 11B]
18. Exemption [Sec. 13]
19. Records [Sec. 22]
20. Tax Invoices [Sec. 23]
21. Retention of record and documents for six years [Sec. 24]
22. Access to record, documents, etc [Sec. 25]
23. Drawing of samples [Sec. 25A]
24. Transactions between associates [Sec. 25AA]
25. Return [Sec. 26]
26. Extension of time for furnishing return [26AB]
27. Special Returns [Sec. 27]
28. Final Return [Sec. 28]
29. Return deemed to have been made [Sec. 29]
30. Certain transactions not admissible [Sec. 73]

CHAPTER 22

SALES TAX ACT, 1990

Short title, extent and commencement

1. This Act may be called the Sales Tax Act, 1990.
- (1) It extends to the whole of Pakistan.
- (2) The territories of Pakistan as per Article 1(2) of the Constitution comprise the following:
 - the Provinces of Baluchistan, the North-West Frontier, the Punjab and Sindh; and
 - the Islamabad Capital territory;

Keeping in view the above discussion, Sales Tax Act, 1990 is applicable to the whole of Pakistan.

Definitions-

2. 'tax period' is a period of 1 month or such other period specified by the Board with the approval of Federal Minister in-charge;
- (43) 'due date' for furnishing of return is the 15th day of the month following the end of the tax period, or other date specified by the Board and different dates may be specified for furnishing of different parts of annexures of the return
- (14) "input tax", in relation to a registered person, means—
 - (a) tax levied on supply of goods received by the person;
 - (b) tax levied on goods imported by the person;
 - (c) tax levied under Federal Excise Act in sales tax mode on goods/services acquired by the person, and
 - (d) Provincial sales tax levied on services rendered or provided to the person;
 - (e) tax levied under the Sales Tax Act, 1990 as adapted in the State of Azad Jammu and Kashmir, on the supply of goods received by the person;
- (20) "output tax", in relation to a registered person, means-
 - (i) tax levied on a supply of goods made by the person;
 - (ii) tax charged under Federal Excise Act in sales tax mode on:
 - production of the goods, or
 - providing of the services,
 by the person;
 - (iii) sales tax levied on the services provided by the person [under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (XLII of 2001)].

MECHANISM OF SALES TAX

Before going through the below table you must know two things:

- a) Input is tax paid at time of purchase
- b) Output is tax recovered from customer at time of sale

1. Importer	Importer purchased goods for Rs.200 and sold to manufacturer for Rs. 300	Output Less: Input Payable	(300 × 17%) (200 × 17%) 17	51 (34)
2. Manufacturer	Manufacturer purchased goods for Rs. 300 and sold to retailer for Rs. 700.	Out put Less: Input Payable	(700 × 17%) (300 × 17%) 68	119 (51)
3. Retailer	Retailer purchased goods for Rs. 700 and sold to customer for Rs. 950	Output Less: Input Payable	(950 × 17%) (700 × 17%) 42.5	161.5 (119)

If we analyse the above table the amount deposited in Government treasury is Rs. 161.5 (see below).

Importer paid to Government at import stage
 Importer paid to Government at time of sale
 Manufacturer paid to Government at time of sale
 Retailer paid to Government at time of sale

Rs.
34
17
68
42.5
161.5

HONDA CARS (Illustrative example to explain concept of input and output)Output (Tax recovered on sale of car) $(3,000,000 \times 17\%)$

510,000

Less: Input

(a) Tax paid on tyres purchased locally $(100,000 \times 17\%)$

(17,000)

(b) Tax paid on engine imported $(500,000 \times 17\%)$

(85,000)

(c) Tax paid on luxury seats $(200,000 \times 17\%)$

(34,000)

(d) Provincial sales tax paid on purchase of accounting services $(50,000 \times 17\%)$

(8,500)

(e) Tax paid in Azad Jammu and Kashmir on wires $(30,000 \times 17\%)$

(5,100)

360,400

Tax payable to Govt.

Customer will pay for car $3,000,000 + 510,000 = 3,510,000$

\downarrow \downarrow \downarrow
 Exclusive sales tax inclusive

(39) 'taxable goods' means all goods other than exempt (u/s 13);

(35) "taxable activity", means economic activity carried on by a person whether or not for profit, and includes—

(a) an activity carried on in the form of a business, trade or manufacture;

(b) an activity that involves the supply of goods, providing of services, or both;

(c) a one-off adventure in the nature of a trade; and

(d) anything done during the commencement or termination of economic activity, but does not include—

(a) the service provided by an employee to an employer;

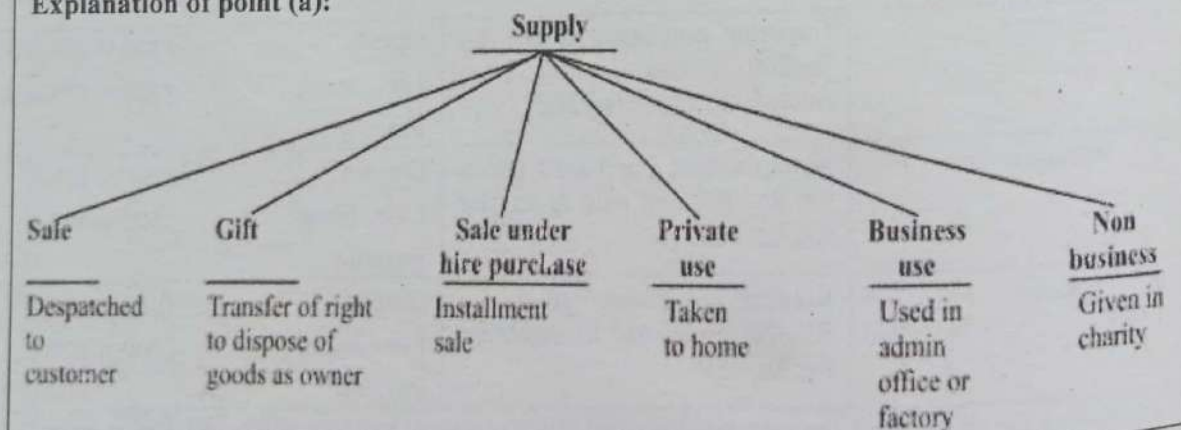
(b) an activity carried on as a private recreational hobby;

(33) "supply" means a sale or transfer of the right to dispose of goods as owner, including sale under a hire purchase agreement, and also includes -

(a) putting to:

- private,
- business or
- non-business

use of goods produced during taxable activity; [Refer Question-5 at end of this chapter]

Explanation of point (a):

(b) auction or disposal of goods to satisfy a debt; and

(c) possession of taxable goods held immediately before de-registration. (Possession of goods is assumed as sales).

Explanation of point (c): A person is registered in January and he got himself de-registered on 1 February. He has 50 units in closing stock on 31 Jan.

یہ بندہ Jan. میں Registered تھا۔

اس نے سوچا کہ میں 1. Feb. سے اپنے آپ کو De-Register کر دوں

50 Units کو اس نے Purchase میں Jan. میں ڈال دیا تھا اس کا مطلب ہے ان کا minus Input کر چکا ہے

یعنی Jan. میں فائدہ لے چکا ہے۔

اب ان 50 Units کو Feb. میں جب Sale کرے گا تو Record output نہیں کرنے گا کیوں کہ De-reg. ہے

اس سے حکومت کو نقصان ہو جائے گا۔

اس نقصان کو Cover کرنے کے لئے حکومت کہہ رہی ہے 31. Jan. کو آپ کے پاس 50 units کا پڑے ہونا ہم Sale assume کر لیں گے۔

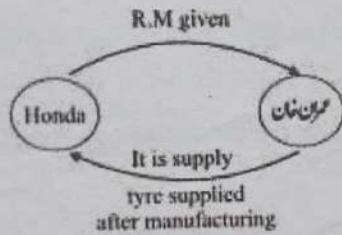
- (d) in case of manufacture of goods belonging to another person, the transfer or delivery of such goods to the owner or to a person nominated by him.

Explanation of point (d):

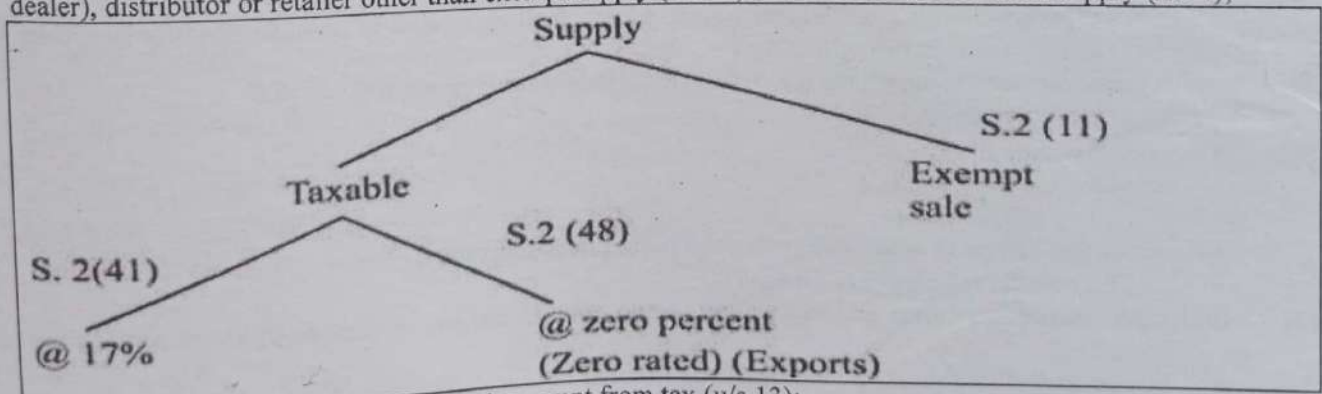
اگر Honda نے Tyre بنانے کے لئے Raw material خریدی اور سوچا کہ Tyre کسی اور سے بنوائیں تو Honda نے Tyre کا

raw material عمران خان کو دے دیا کہ آپ اپنی Factory میں بنا دو تو جب عمران خان Tyre بنا کر Honda یا Honda کے Agent کو

واپس کرے گا تو سمجھا جائے گا کہ عمران نے Honda کو Tyre sale کر دیے ہیں۔



- The Board with the approval of Federal Minister in-charge may specify other transactions as supply
- (41) 'taxable supply' means a supply of taxable goods made by an importer, manufacturer, wholesaler (including dealer), distributor or retailer other than exempt supply (u/s 13) and includes a zero-rated supply (u/s 4);



- (11) 'exempt supply' means a supply which is exempt from tax (u/s 13);
- (48) 'zero-rated supply' means taxable supply which is charged to tax at the rate of 0%. (u/s 4)

- (16) 'Manufacture' or 'produce' includes -
- any process in which an article singly or in combination with other articles, is:
 - either converted into another distinct article or product or
 - so changed, transformed or reshaped that it becomes capable of being put to use differently and includes any process incidental or ancillary to the completion of a manufactured product;
 - process of printing, publishing, lithography and engraving; and
 - process and operations of assembling, mixing, cutting, diluting, bottling, packaging, repacking or preparation of goods in any other manner;
- (27) 'retail price', with reference to the 3rd Schedule, means the price fixed by the manufacturer or importer, in case of imported goods, including all duties and taxes (other than sales tax) at which a brand of an article should be sold to general public.
Where more than one price is fixed for the same brand, highest price will be taken as retail price.
The Board may specify areas for determination of highest retail price.
- (5AB) "cottage industry" means a manufacturing concern, which fulfils each of following conditions, namely:—
- does not have an industrial gas or electricity connection;
 - is located in a residential area;
 - does not have a total labour force of more than 10 workers; and
 - annual turnover from all supplies does not exceed Rs. 10 million.
- (19) "open market price" means the consideration in money which that supply or a similar supply would generally fetch in an open market;
- (31) "Similar supply", in relation to the open market price of goods, means any other supply of goods which closely or substantially resembles the characteristics, quantity, components and materials of the aforementioned goods
- (33A) "supply chain" means the series of transactions between buyers and sellers from the stage of first purchase or import to the stage of final supply.
- (17) 'manufacturer' or 'producer' means:
- a person engaged, whether exclusively or not, in the production of goods whether the raw material is owned by him or not; and
 - shall include —
 - a person who by any process assembles, mixes, cuts, dilutes, bottles, packages, repackages or prepares goods by any other manner;
 - an assignee in bankruptcy, liquidator and any person who disposes of assets of manufacturer in any fiduciary capacity; and
 - any person who owns or uses any patent or right for manufacturing of goods, whether or not such person, sells or disposes of the goods:
- However for claiming refund, only such person shall be treated as manufacturer-cum-exporter who has his own manufacturing facility.
- (28) 'retailer' means a person, supplying goods to general public for consumption:
A person combining the business of:
- import and retail or
 - manufacture with retail,
- shall:
- notify and advertise wholesale prices and retail prices separately,
 - and declare the address of retail outlets.
- (47) 'wholesaler' includes a dealer and means any person who carries on, whether regularly or not, the business of:
- buying and selling goods by wholesale or
 - supplying goods, directly or indirectly, by wholesale
- for cash or deferred payment or for commission or other valuable consideration
It also includes a person who:
- stores goods belonging to others as an agent for the purpose of sale and
 - supply taxable goods to a person who deducts income tax at source under the ITO, 2001;
- (13) "Importer" is a person who imports goods in Pakistan

Chapter 22: Sales Tax Act, 1990

- (7) "distributor" means a person appointed by:
- a manufacturer,
 - an importer or
 - any other person

for a specified area to purchase goods from him for further supply and includes a person who in addition to being a distributor is also selling goods as a wholesaler or a retailer;

- (1) "active taxpayer" means a registered person who does not fall in any of the following categories:-
- (a) who is blacklisted or whose registration is suspended;
 - (b) fails to file the return by the due date for 2 consecutive tax periods;
 - (c) who fails to file an Income Tax return or statement of final tax, by the due date; and
 - (d) who fails to file quarterly or an annual withholding tax statement under ITO.

(3) "associates (associated persons)" Same as ITO, 2001

(5AA) "company" Same as ITO, 2001

(21) "person" means,-

- (a) an individual;
- (b) a company or association of persons incorporated, formed, or established in Pakistan or elsewhere;
- (c) the Federal Government;
- (d) a Provincial Government;
- (e) a local authority in Pakistan; or
- (f) a foreign government, a political subdivision of a foreign government, or public international organization;

(22A) "Provincial sales tax" means tax levied under provincial laws, which are declared by Federal Government to be provincial sales tax.

(29A) "sales tax" means:

- (a) the tax, additional tax, or default surcharge.
- (b) a fine, penalty or fee imposed; and
- (c) any sum payable under Act;

(25) 'registered person' means a person who;

- is registered or
- is liable to be registered

However a person liable to be registered but not registered cannot claim benefits available to registered person.

(12) "Goods" include every kind of movable property other than actionable claims, money, stocks, shares;

(9A) "E-intermediary" Means a person appointed as e-intermediary for filing of electronic returns and such other documents as may be prescribed by the Board.

(40) 'tax invoice' means a document required to be issued under section 23;

(44) "time of supply"

Type of supply	Time of supply
(a) A supply of goods	The time at which the goods are delivered or made available to the recipient of the supply
(b) A supply of goods under a hire purchase agreement	The time at which the agreement is entered into
(c) Services	Time at which the services are rendered or provided

Chapter 22: Sales Tax Act, 1990

4 Examples to explain point (a) above

In all of the examples below the tick represents time of supply:

Ex. (i)	Jan.	Feb.	
	Cash received ×	Goods delivered ✓	
Ex. (ii)	April	May	
	Goods delivered ✓	Cash received ×	
Ex. (iii)	March	April	May
	Goods Made available ✓	Goods Delivered ×	Cash received ×
Ex. (iv)	March	April	May
	Cash received ×	Goods Made available ✓	Goods Delivered ×

If any part payment is received:

- for a supply in a tax period it shall be accounted for in the return for that tax period; and
- In respect of exempt supply, it shall be accounted for in the return for the tax period during which the exemption is withdrawn from such supply.

(46) 'value of supply' means in respect of a taxable supply, the consideration in money (including all Federal and Provincial duties and taxes) which the supplier receives from the recipient but excluding the amount of tax:

No.	Scenario	Value of supply
(i)	If consideration for a supply is fully or partly in kind	Open market price of the supply excluding the amount of tax
(ii)	If supplier and recipient are associates and supply is made at no consideration or at a consideration lower than open market price	Open market price of the supply excluding the amount of tax
(iii)	If taxable supply is made to general public on installment basis (including surcharge)	Open market price of the supply excluding the amount of tax
(iv)	In case trade discount is provided	The discounted price excluding the amount of tax. Provided that tax invoice shows the discounted price and the related tax and the discount allowed is in conformity with normal business practices
(v)	In case of a special nature of transaction where it is difficult to determine value of supply	Open market price
(vi)	In case of imported goods , (excluding those specified in Third Schedule)	The value determined under Customs Act including custom duty and excise duty charged on it
(vii)	If there are sufficient reasons to believe that the value of a supply has not been correctly declared in the invoice	The value determined by the Valuation Committee comprising representatives of trade and the Inland Revenue constituted by the Commissioner
(viii)	If goods other than taxable goods (exempt goods) are supplied to a registered person for processing	Market price of goods excluding the amount of tax
(ix)	In case of manufacture of goods belonging to another person	the actual consideration received by the manufacturer for the value addition carried out on such goods
(x)	in case of supply of electricity by an independent power producer or WAPDA	the amount received for energy purchase price; excluding the amount received for capacity purchase price, energy purchase price premium, excess bonus
(xi)	in case of supply of electric power and gas by a distribution company	the total amount billed including price of electricity and natural gas, rent, commission and all duties and taxes local, provincial and federal but excluding the late payment surcharge and sales tax
(xii)	If a person purchase used vehicle from general public (on which tax has already been paid on import or manufacturing), and sell it in the open market after making value addition	the difference between sale and purchase price of vehicle on the basis of prescribed valuation method
(xiii)	In case of a taxable supply, with reference to retail tax	the price of taxable goods excluding the amount of retail tax, which a supplier will charge, or such other price as the Board may specify.

[Part of syllabus]

The Board may fix the value of any imported goods or taxable supplies and may fix different values for different classes of same type of goods.
If the import/supply is made at a higher value than fixed by Board, the value shall be the actual price.

Example of point (viii)

Mr. Syed Aamir Ali is involved in the manufacturing of tube lights. He doesn't prepare the starters himself. He hands over the material to Mr. Baber who after doing processing on material gives the starter to Mr. Syed Aamir Ali in finish form. Mr. Baber will now charge the output on market price of starter.

Question

Comment how the value of supply will be determined in following independent scenarios:

1. Honda sold car to Rise. Market price of car is Rs. 2m. In consideration Honda received Rs. 1.5m cash and chairs having fair market value of Rs. 0.4m.
2. Ali sold goods to his cousin for Rs. 3m. However the fair market value of the goods is Rs. 4m.
3. Fareed motors sold bike to one of its customer for Rs. 110,000 on installment sale. Fareed motors normally sell such bike for Rs. 100,000.
4. Sameer Electronics sold 7 AC's at a discounted price of Rs. 180,000. The fair market value of AC's was Rs. 200,000. Trade discount of Rs. 20,000 is mentioned on invoice.
5. Tameer imported good for Rs. 15 m however custom authorities determined the value of imported goods at Rs. 18 m. He also paid custom duty and federal excise duty amounting to Rs. 9 m and /Rs. 3 m respectively.

Answer

1. If consideration for a supply is fully or partly in kind then the value of supply will be the open market price of the supply excluding the amount of tax. Therefore the value of supply for Honda is Rs. 2m.
2. If supplier and recipient are associates and supply is made at no consideration or at consideration lower than open market price the value of supply will be open market price excluding the amount of tax. Therefore the value of supply is Rs. 4m.
3. If taxable supply is made to general public on installment basis (including surcharge) then the value of supply will be the open market price excluding the amount of tax. Here the market price is Rs. 100,000. So the value of supply for Fareed Motors is 100,000.
4. In case trade discount is provided, the discounted price excluding the amount of tax will be considered as value of supply if tax invoice shows the discounted price and the related tax and the discount allowed is in conformity with normal business practices. Therefore assuming that trade discount is in conformity with normal business practices Rs. 180,000 will be considered as value of supply.
5. In case of imported goods value of supply is the value determined under Customs Acts including custom duty and excise duty charged on it. Thus the value of supply is $(18+9+3) = 30m$.

Chapter-II

SCOPE AND PAYMENT OF TAX

3. Scope of tax.—

(1) Normal rate of sales tax

Sales tax shall be charged at the rate of 17% of the value of—

- (a) taxable supplies made by a registered person during any taxable activity carried on by him; and
- (b) goods imported into Pakistan, irrespective of their final destination in territories of Pakistan.

(1A) Further tax

Where taxable supplies are made to a person who has not obtained registration number, a further tax shall be charged at the rate of 3% of the value in addition to 17%.

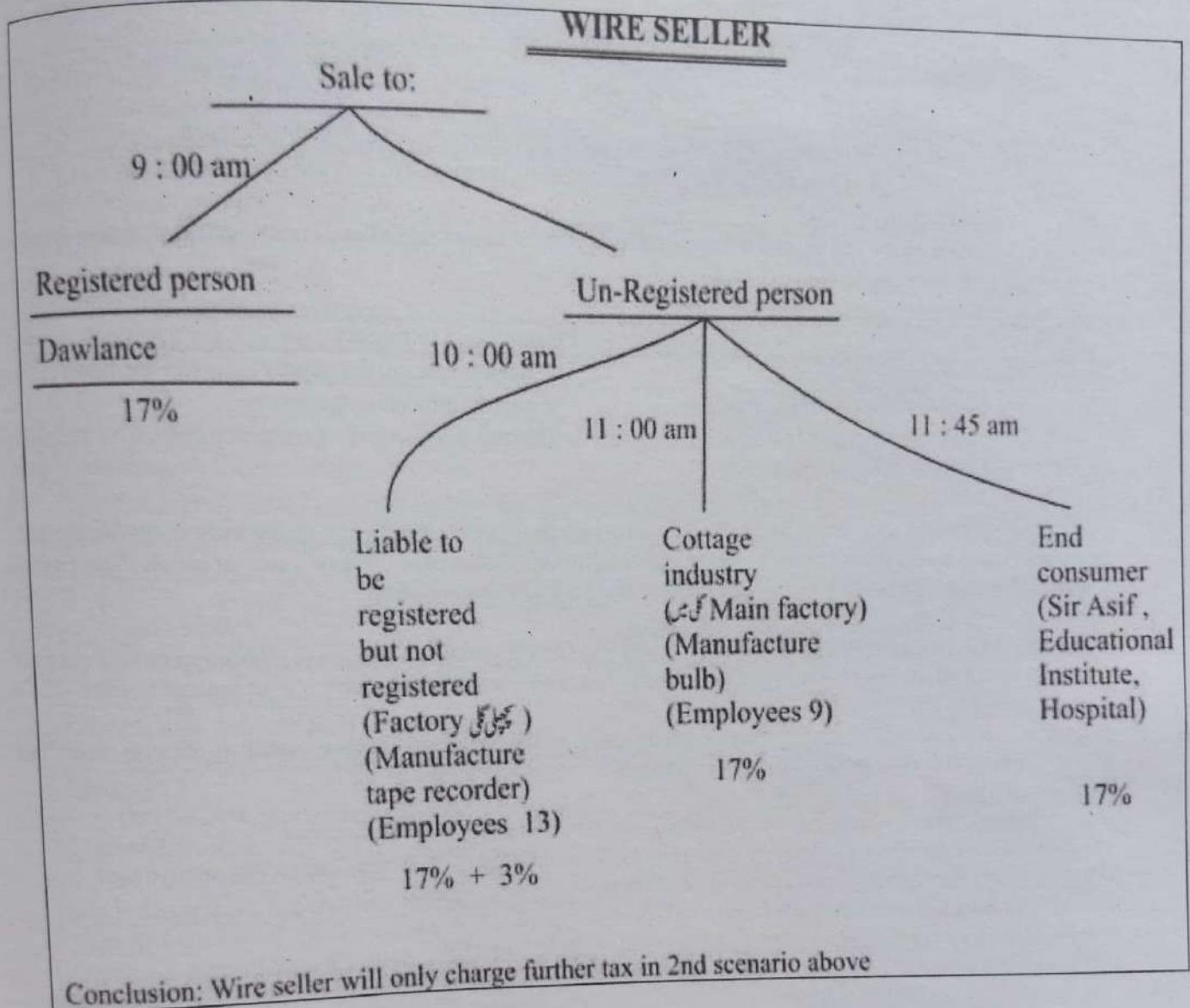
Federal Government may specify supplies on which the further tax shall not be charged.

An SRO provides following list of persons on which this further tax of 3% is not chargeable:

- (i) Electricity energy supplied to domestic and agricultural consumers.
- (ii) Natural gas supplied to domestic consumers.
- (iii) Motor oil, diesel oil, jet fuel and fuel oil.
- (iv) Goods sold by the retailers to end customers.
- (v) Supply of goods directly to end customers including food, beverages, fertilizers and vehicles.
- (vi) Items listed in Third Schedule
- (vii) Second hand worn clothing and other worn articles falling under PCT heading 6309.0000.
- (viii) Fertilizers

Chapter 22: Sales Tax Act, 1990

- (ix) Supplies by steel melters, re-rollers and ship breakers operating under Chapter XI of Sales Tax Special Procedure Rules, 2007.
- (x) Supplies covered under the Fifth Schedule to the Sales Tax Act, 1990.
- (xi) Supplies made to Government, semi-government and statutory regulatory bodies.
- (xii) Supply of white crystalline sugar.



- (1B) Capacity tax
For goods specified in Tenth Schedule tax shall be levied -
- (a) on the production capacity of plant, machinery
 - (b) on fixed basis from any person.
- (2) (a) Tax on taxable supplies specified in 3rd schedule
Tax on taxable supplies specified in Third Schedule tax shall be charged at 17%
- For supplies and import of goods specified in Third Schedule tax shall be charged at 17% of the retail price.
 - The retail price and sales tax shall be legibly, prominently and indelibly printed or embossed by the manufacturer or importer (in case of imported goods), on each article, packet, container, package, cover or label.
 - Federal Government can exclude/include any goods from the Third Schedule;

	Items listed in 3 rd Schedule	Other taxable items
Items	20 items only which are listed in 3 rd Schedule	All items other than 20 (means thousands of items)
Charging of tax	Sales tax shall be charged on "retail price"	Sales tax shall be charged on "value of supply"
Price	Retail price and sales tax shall be embossed on each article	Price will not be embossed
Trade discount	Will be ignored	Will be considered if conditions are fulfilled
Further tax	Will not be charged	Will be charged

Note: The table given above is not to be memorised, it is only for understanding.

(b) Special rates of tax

Federal Government may prescribe any higher or lower rate of tax for any class of taxable goods.

(3) Liability to pay sales tax

Following persons are liable to pay the sales tax, -

Situation	Person liable to pay tax
In the case of supply of goods	The person making the supply
In the case of goods imported into Pakistan	The person importing the goods

The Board, with the approval of Federal Minister in-charge, may specify goods where person receiving supply is liable to pay the tax. [S.3 (3A)]

(5) Extra tax

Federal Government may collect tax at such extra rate or amount, in addition to the normal tax [under sub-section (1) and sub-section (2)]. The tax charged here shall not exceed 17% of value of goods. The Federal Government will also specify the mode, manner and time of payment of tax.

(6) Special powers to the Federal Government/Board

The Federal Government or the Board may in place of the tax under sub-section (1), levy and collect such tax as it may deem fit on any goods. They will specify the mode, manner and time of payment of tax

(8) Tax on supply to CNG stations

In case of supply of natural gas to CNG Stations, the Gas Transmission Company shall charge Sale Tax at 17% of the value of supply to the CNG consumers.

(9) Tax on retailers

Tier-1 category retailers shall pay tax in normal manner at rate of 17%.

Tax shall be charged through monthly electricity bills from retailers other than Tier-1. The rate will be:

- 5 % where the monthly bill is upto Rs. 20,000 and
- 7.5 % where the monthly bill exceeds Rs. 20,000

and the electricity supplier shall deposit the amount collected directly.

The above tax on other than Tier-1 retailers is other than normal tax of 17%, further tax of 3% and extra tax.

(9AA) Tax on steel products/ship plates

For goods specified in the 13th Schedule the minimum production for a month shall be determined on the basis of a single or more inputs as used in the production process. If minimum production exceeds the actual supplies (sales) then minimum production shall be treated as quantity supplied for charging tax.

3B. Collection of excess sales tax etc.—

(1), (2) A person who has collected any tax under misapprehension or otherwise which:

- was not payable as tax or
- is in excess of the tax actually payable

and the incidence has been passed on the consumer, the person shall pay the tax to the Federal Government.

Amount payable to the Federal Government here shall be considered as an arrear of tax and shall be recoverable accordingly. Refund claim will not be admissible.

(3) The burden of proof that the incidence of tax has or has not been passed to the consumer shall be on the person collecting the tax.

4. Zero rating.—

List down the goods which are charged to tax at the rate of zero percent
The following goods shall be charged to tax at the rate of zero per cent:--

- goods exported or specified in the Fifth Schedule;
- supply of stores/provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan
- such other goods, as the Federal Government may specify (by notification in the official Gazette), whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations and implementation of bilateral and multilateral agreements.

List the type of exports which are outside the purview of zero rating/Exceptions to above rule

However following goods shall not be charged to tax at the rate of zero per cent:

- exports that are intended to be re-imported into Pakistan; or
- goods that have been entered for export but are not exported; or
- goods that have been exported to a country specified by the Federal Government:

The Federal Government may restrict input tax credit for person making a zero-rated supply.

Supplies without payment of sales tax

Under section 60 of the Act, the Federal Government is empowered to prescribe any taxable goods which can be imported without payment of whole or part of sales tax.

5. Change in the rate of tax.—

If there is a change in the rate of tax-

- a taxable supply made by a registered person is chargeable at the rate applicable at the time of supply;
- imported goods shall be chargeable at following rates-

	Scenario	Rate to be used
i)	If the goods are entered for home consumption	The rate applicable on the date on which a goods declaration is presented
ii)	If the goods are cleared from warehouse	The rate applicable on the date on which a goods declaration for clearance of such goods is presented

Where goods declaration is presented in advance of the arrival of conveyance, the tax shall be calculated at the rate applicable on the date the manifest of the conveyance is delivered:

Example-1

Good declaration is presented on 5-Jan-17. Manifest of conveyance is delivered on 15-Jan-17.

Conclusion: Rate of 15-1-17 is applicable.

In case of clearance of goods from warehouse if the tax is not paid within 7 days of the presenting of the goods declaration, the tax shall be charged at the rate applicable on the date on which tax is actually paid.

Example-2

Goods are cleared from warehouse on 1-March-18 and goods declaration is presented on the same date.

Under the two independent scenarios, determine the date, tax which will be charged:

Scenario 1: Tax is paid on 05 March 2018

Scenario 2: Tax is paid on 10 March 2018

Solution

Scenario 1: Rate of 1 March 2018 will be applicable

Scenario 2: Rate of 10 March 2018 will be applicable

If there is a change in the rate of tax during a tax period, a separate return has to be furnished in respect of each portion of the tax period showing the application of different rates.

Example-3

Rate of tax changed from 19-March-17

Two returns for March month will be filed.

1. One from 1-March-17 to 18-March-17

2. 2nd from 19-March-17 to 31-March-17

6. Time and manner of payment.—

- (1) Time of payment of tax on imported goods
The tax on goods imported into Pakistan shall be paid at the same time at which customs duty is payable. The provisions of collection of tax in Customs Act shall also apply here.
- (2) Time of payment of tax on taxable supplies
The tax on taxable supplies made shall be paid by the registered person at time of filing the return. The Board may direct that the tax on certain supplies shall be paid in any other way or time.
- (3) Mode/Manner of payment of tax
The tax on goods imported shall be paid in the same manner as if it is a customs duty payable. The tax due on taxable supplies shall be paid by any of the following modes:-
 - (i) through deposit in a bank designated by the Board; and
 - (ii) through such other mode and manner specified by the Board.

7. Determination of tax liability.—

- (1) For determining tax liability of a registered person on taxable supplies made during a tax period, the person shall be entitled to deduct input tax:
 - paid or
 - payable {creditors yet not paid}
 during the tax period for taxable supplies
 - made or
 - to be made {stock yet not sold}
 by him. The input tax will be deducted from the output tax, excluding the amount of further tax (under sub-section (1A) of section 3), that is due in that tax period.

Determination of Tax Liability

Output	(50 units sale × Rs. 120 / units) × 17%	1,020
Less: Input	(80 units purchase × Rs. 60 / unit) × 17%	(816)
Sale made 50 unit	<div style="display: inline-block; vertical-align: middle;"> Sale to be made 30 unit </div> <div style="display: inline-block; vertical-align: middle; margin-left: 20px;"> Cash Credit </div>	

204

Where a registered person did not deduct input tax within the relevant period, he may claim such tax in the return for any of the 6 succeeding tax periods.

Reasons why input is not deducted in the relevant month:

1. Forget to record purchase
2. Invoice received late
3. Invoice received but misplaced

Example

A person has not recorded input (Purchase) in the month of March 2017. What is the remedy available?

Solution

He can claim input till September 2017.

March	Apr 1st	May 2nd	June 3rd	July 4th	Aug 5th	Sep 6th
-------	------------	------------	-------------	-------------	------------	------------

Last month by which he can record purchase of March

- (2) Time of claim of input tax/ Conditions for allowing input
A registered person shall not be entitled to deduct input unless:

Situation	Document required
a) In case of purchases made by him	He holds a <u>tax invoice</u> in his name and having his registration number in respect of such supply or in case of supply of electricity or gas, a bill bearing his registration number and the address where the connection is installed: If the supplier has not declared such supply in his return or he has not paid amount of tax due as indicated in his return than input cannot be recorded.
b) In case of imports made by him	He holds <u>bill of entry or goods declaration</u> in his name and showing his sales tax registration number. It should be duly cleared by the Custom authorities.
c) In case of goods purchased in auction	He holds a <u>treasury challan</u> , in his name and bearing his registration number, showing payment of sales tax.

Example of (a) above

جہاز Honda purchase نے اپنی return میں ڈال ہے اگر وہ Gen. Tyre Sale اپنی Return میں نہ Show کرے یا Honda جہاز Tyre کو Tax دے دے اور وہ آگے Govt. کو جمع نہ کرائے تو Honda اس purchase کو Record نہیں کر سکتا

8. Tax credit not allowed.—

- (1) A registered person shall not be entitled to deduct input tax paid on-
- the goods or services used for any purpose other than for taxable supplies made by him;
 - any other goods or services specified by Federal Government;
 - the goods on which extra amount of tax is paid in addition to normal tax at 17% [under sub-section (5) of section 3].

Mr. Muzaffar has purchased goods by paying Rs. 100 + 20 in which Rs. 3 is the extra amount of tax as per S.3 (5). His output is Rs. 70. So his liability will be Rs. 70-17=53.

- (ca) the goods/services on which sales tax has not been deposited in Government treasury by the supplier;

Mr. Umer claimed input tax of Rs. 700 in return of March 2009. Government came to know that Rs. 130 included in 700 is an amount paid to a supplier who has not deposited this amount in government treasury so government can disallow this input.

- (caa) purchases, for which:

- a discrepancy is indicated by CREST or
 - input tax is not verifiable in the supply chain;
- fake invoices;
 - purchases made by a registered person who fails to furnish the information required by the Board.
 - goods and services not related to the taxable supplies made by the registered persons;
 - goods and services acquired for personal or non-business consumption;
 - goods used in immovable property, or permanently attached to immovable property, such as building and construction materials, paints, electrical, pipes, wires and cables, but excluding:
 - pre-fabricated buildings
 - good acquired for sales or re-sale
 - good acquired for direct use in the production of taxable goods;
 - vehicles specified in Customs Act, parts of such vehicles, electrical and gas appliances, furniture, office equipment (excluding electronic cash registers), but excluding goods acquired for sale/re-sale.
 - services in respect of which input tax adjustment is barred under the provincial sales tax law;
 - import or purchase of agricultural machinery or equipment subject to sales tax at the rate of 7%; and
 - such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return or he has not paid the tax due as indicated in his return.
 - the input on goods or services relating to supplies made to un-registered person, on pro-rata basis, for which sale invoices do not bear the NIC number or NTN, of the recipient.

Chapter 22: Sales Tax Act, 1990

- (2) If a registered person deals in taxable and non-taxable supplies, he can reclaim only such proportion of the input as relates to taxable supplies.
- (3) Only a registered person can deduct or reclaim input tax.
- (6) The Board, with the approval of Federal Minister in-charge, may specify goods which a registered person cannot supply to an un-registered person. {If he has made the supply he will charge output tax but he cannot claim input tax}.

Government has not allowed Mr. Qamar, a registered person to sale goods to un-registered persons. However Mr. Qamar has sold the goods to un-registered persons. In this case if he wants to deduct his input say of Rs. 50 from his output of Rs. 80. He will not allowed to do this, rather he will pay whole Rs. 80.

Input tax that is admissible

Where goods are sold and the sum received is partly in cash and partly in kind, then input will be allowed subject to the conditions:

- Goods received in kind are taxable
- Goods received are shown in records.
- The balance amount (even if less than Rs.50,000) is received through crossed banking instrument

Explanation of few of the provisions of Section 8

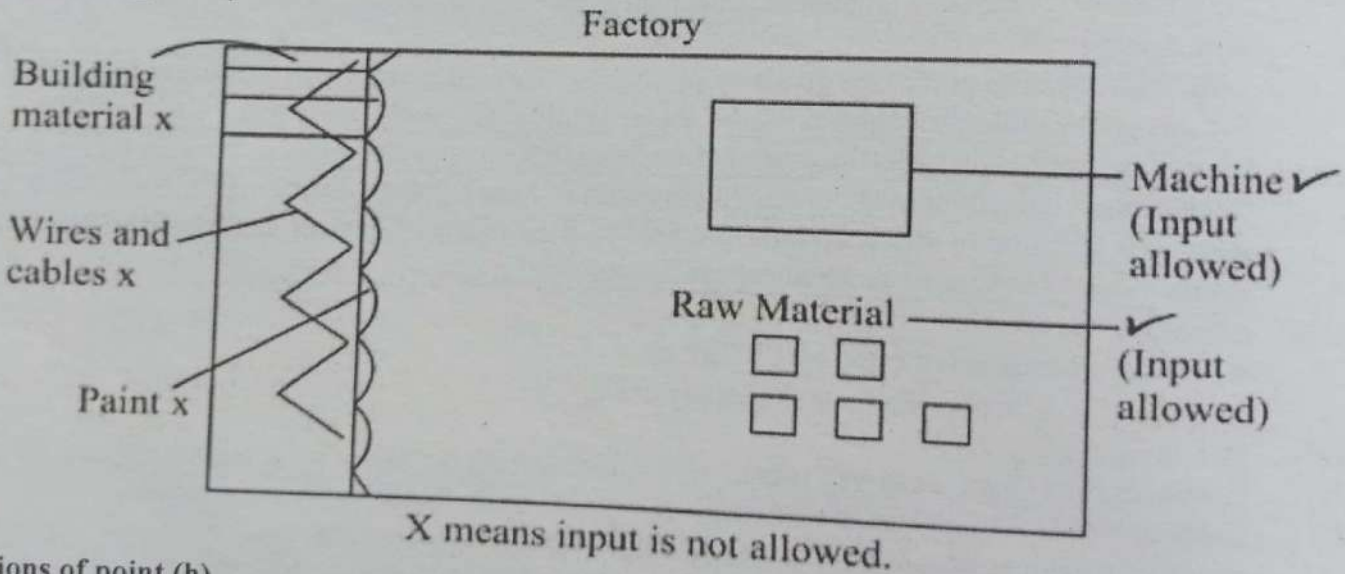
(a) ایسا Raw material خریداجو Exempt sale میں استعمال ہوا تو اس Raw material کی purchase پر Minus input نہیں کر سکتے

(caa) ایسی Purchase جس کو General Tyre نے اپنی sale میں نہیں ڈالا اس کو Purchase Honda میں نہیں ڈالے گا۔

(f) Same as 'a'

(h)

Dawance Books



Exceptions of point (h)

Pre fabricated building (تیار چھتیں)

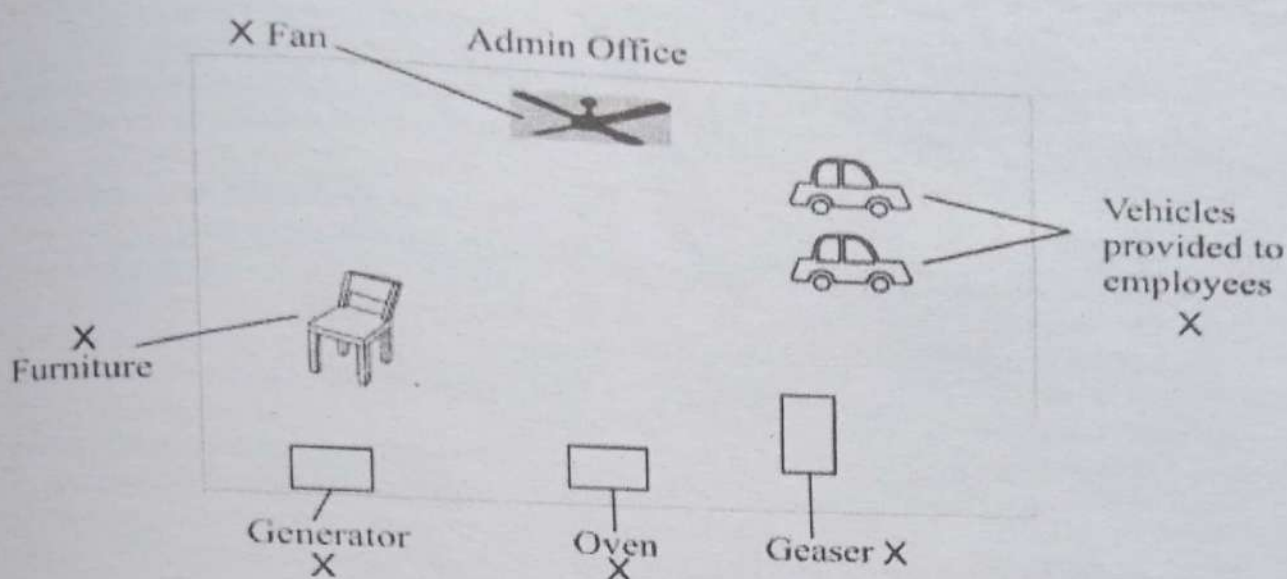
Goods acquired for sale / re-sale

اگر Construction Material، تاریں، Paint، Pipes، اس لیے ہیں کہ وہ آگے۔

بیچتے ہیں یعنی ان کی دکان ہے تو Pur. پر Allow input ہے۔

Direct use in producing taxable goods

اگر تاریں، Paint، Pipes اس لیے لیا کہ AC جو بنا کر بیچنا ہے اس میں لگائیں گے تو Allow input ہے۔



However if above items are not used in office rather they are bought for resale than input is allowed.

73. Certain transactions not admissible.—

- (1) Payment for a transaction exceeding Rs. 50,000, excluding utility bill, shall be made by a crossed cheque or other banking channel otherwise input will be disallowed.

Payment must be made from business bank account of buyer to business bank account of the supplier. Bank account of both buyer and supplier should be declared to Board at the time of registration/through change of particulars subsequently.

If above conditions are not fulfilled buyer will not be entitled to claim input tax.

Further supplier cannot claim input on amount not received in bank account.

Note:

1. Sec 73 is not applicable on registered person supplying goods to unregistered person. However, supplier should deposit cash in his business bank account to claim input tax
 2. Same party receivable and payable can be setoff if sales tax has been charged and paid by both parties, and registered person has obtained approval of the Commissioner before adjustments.
- (2) The payment for credit transaction should be made within 180 days of issuance of the tax invoice. If condition is not fulfilled buyer will not be entitled to claim input tax.

8A. Joint and several liability of registered persons in supply chain where tax unpaid.—

Where a registered person receiving a taxable supply from another registered person:

- is in the knowledge or
- has reasonable grounds to suspect

that some or all of the tax in respect of that or any previous or subsequent supply would go unpaid, the burden of proof will be on department, such person as well as the person making supply shall be jointly and severally liable for unpaid tax.

The Board may exempt any transactions from the ambit of this section.

8B. Adjustable input tax.—

- (1) A registered person, other than public limited companies listed on Pakistan Stock Exchange, shall not be allowed to adjust input in a tax period exceeding 90% of the output tax.

Excess input tax shall be carried forward to the next tax period, and shall be considered as input tax for that period. The Board may prescribe the procedure for refund [(as mentioned in sub-section (2) below)]. [S. 10(1)]

Input tax on fixed assets/capital goods shall not be restricted to 90% of output.

Chapter 22: Sales Tax Act, 1990

The Board may exclude any persons from the ambit of above provision.

- (2), (3) Where input tax is restricted up to 90% of output tax an adjustment or refund will be allowed to a registered person.

For claiming the adjustment/refund the person should fulfill following conditions:-

Person		Condition applicable
(i)	If the registered person's account are subject to audit under Companies Act, 2017	The person should furnish a statement along with annual audited accounts certified by the auditors
(ii)	In case of other persons	The person should fulfill the conditions and restrictions specified by the Board

The adjustment/refund of input tax shall be made on yearly basis in the 2nd month after the end of the financial year.

- (4) The Board may prescribe other limit of input tax adjustment.
- (4A) Input tax allowed for locally manufactured electric vehicles shall be limited to the extent of output tax. No refund or carry forward of excess input tax shall be allowed.
- (5) An auditor found guilty of misconduct in furnishing the above certificate [mentioned in sub-section (2)] shall be referred to the Council for disciplinary action under Chartered Accountants Ordinance.
- (6) In case a Tier-1 retailer does not integrate his retail outlet in the manner as prescribed during a tax period or part thereof, the adjustable input tax for whole of that tax period shall be reduced by 60%.

9. Debit and credit note.—

Where a registered person has issued a tax invoice and due to cancellation or return of goods or a change in value of supply the amount as per the tax invoice needs to be modified, he may, issue a debit or credit note.

10. Refund of input tax. —

- (1) If the input tax paid by a registered person on purchases exceeds the output tax because of:

- zero rated local supplies or
- exports

the excess input shall be refunded within 45 days of filing of refund claim.

- (2) If a registered person is liable to pay any tax, default surcharge or penalty under any law administered by Board, the refund under Sales Tax Act shall be made after adjustment of that amount.

- (3) Where a person has claimed input tax credit or refund which was not admissible, the proceedings against him shall be completed within 60 days.

For any enquiry or audit or investigation 60 days may be extended upto 120 days by an officer not below the rank of an Additional Commissioner. The Board may extend the period upto maximum of 9 months.

11. Assessment of Tax and recovery of tax not levied or short-levied or erroneously refunded.-

- (1) An officer of Inland Revenue shall make an assessment order of tax (imposing penalty and default surcharge) if:

- a person fails to file return by due date or
- the person pays less tax due to miscalculation

The order shall be passed after giving a show cause notice.

If a person files the return after the due date and pays the tax (including default surcharge and penalty), the show cause notice and order of assessment shall abate.

- (2) If a person has:

- not paid the tax on supplies made or
- made short payment of tax or
- claimed input tax credit or refund which is not admissible

an officer of Inland Revenue shall make an assessment order of tax (imposing penalty and default surcharge).
The order shall be passed after giving a show cause notice.

- (3) Where due to collusion or a deliberate action tax is not levied or short levied or erroneously refunded an officer shall issue a show cause notice for payment of tax.
- (4) Where due to inadvertence or error tax is not levied or short levied or erroneously refunded officer shall issue a show cause notice for payment of tax.

- (4A) Where any person, required to withhold sales tax fails to withhold tax or withholds it but fails to deposit tax, an officer of Inland Revenue shall determine the defaulted amount after giving a show cause notice.
- (5) Show cause notice can be issued within 5 years of the end of financial year in which relevant date falls. The notice shall specify the grounds and the officer shall consider the representation made by the person. An assessment order shall be passed within 120 days of issuance of show cause notice or within such extended period as the Commissioner may fix. Extension shall not exceed further 90 days. Following period will not be counted:
- Adjournment because of Alternative Dispute Resolution proceedings or
 - Adjournment by the petitioner not exceeding 60 days.

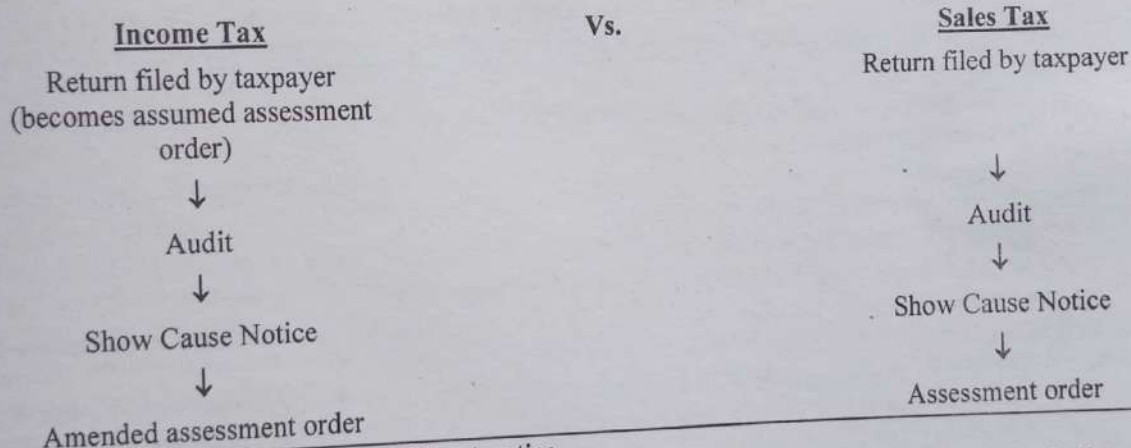
Example

Mr. Omar has filed the return of March 2012 on April 12, 2012. He also paid the tax on the same date. So under the given scenario, the last date by which show cause notice can be issued is 30-June-2017. Assume show cause notice is issued on 5-Feb-2017, so what is the last date by which assessment order can be made.

The assessment order can be made by 05-June-2017.

- (6) If a person fails to file a return, an officer, not below the rank of Assistant Commissioner, shall determine minimum tax.
- (7) "Relevant date" means-
- The time of payment of tax (as provided u/s 6); and
 - In a case of erroneous refund, the date of refund.

Difference between Return and assessment of income tax and sales tax



- 11A. **Short paid amounts recoverable without notice –**
Where a registered person pays tax less than indicated in his return, the short paid tax (including default surcharge) shall be recovered from him:
- by stopping removal of goods from business premises and
 - through attachment of business bank accounts
- without giving him a show cause notice.
However penalty will be imposed after issuing show cause notice.
- 11B. **Assessment giving effect to an order**
- Where an assessment order is to be issued to give effect to (after) any order made by Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court than the Commissioner (or an officer of Inland Revenue) shall issue the appeal effect order within 1 year from the end of the financial year in which appellate order is served.
 - Where because of order of the Appellate Tribunal, High Court or Supreme Court, an assessment order is remanded and the Commissioner or Commissioner (Appeals) or officer of Inland Revenue, is directed to pass a new order of assessment, they shall pass the new assessment order within 1 year from the end of the financial year in which the appellate order is served.
New assessment order is not required to be issued within 1 year if an appeal is made against the order of appellate authority.

13. Exemption

- (1) Supply of goods or imports specified in the 6th Schedule shall be exempt from tax subject to conditions specified by Federal Government.
- (2), (3) However the Federal Government may, whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations and implementation of bilateral and multilateral agreements, exempt any taxable supplies or import from whole or any part of tax.
- (6) The Board shall place before National Assembly all notifications issued in a financial year.

Note: Sales made by cottage industry are exempt from tax.

Difference between zero rated and exempt supply

Description	Zero Rated Supply	Exempt Supply
Definition	It is a supply which is charged to tax at the rate of zero per cent	It is a supply which is exempt from tax
Input tax credit	Input tax paid is refundable.	Input tax paid is inadmissible.
Products Covered	Goods exported or notified by FBR or mentioned in the Fifth Schedule	Goods mentioned in Sixth Schedule. Notified by Federal Government and FBR
Registration	Required to be registered	No requirement of registration
Invoicing Requirements	Invoice shall be raised but at zero per cent	No invoice shall be raised.

CHAPTER-IV BOOK KEEPING AND INVOICING REQUIREMENTS

22. Records.—

- (1) A registered person making taxable supplies shall maintain and keep at his:
 - business premises or
 - registered office

in English or Urdu language the records of:

- goods purchased and imported and
- supplies made (including zero-rated and exempt supplies)

by him or by his agent. Records will be kept in such form that his tax liability can be readily ascertained. Following is the detail of records required to be kept:

- (a) records of supplies made shall indicate the description, quantity and value of goods, name and address of the person to whom supplies were made and the amount of the tax charged;
 - (b) records of goods purchased shall show the description, quantity and value of goods, name, address and registration number of the supplier and the amount of the tax on purchases;
 - (c) records of goods imported shall show the description, quantity and value of goods and the amount of tax paid on imports;
 - (d) records of zero-rated and exempt supplies;
 - (da) double entry sales tax accounts;
 - (e) invoices, credit notes, debit notes, bank statements, banking instruments, inventory records, utility bills, salary and labour bills, cash book, rental agreements, sale purchase agreements and lease agreements;
 - (ea) record relating to gate passes, inward or outward, and transport receipts;
 - (eb) electronic version of records mentioned in clause (a) to (ea); and
 - (f) such other records as may be specified by the Board.
- (1A) The Board may require a registered person to use only such number of business bank accounts as specified. The person will only use these accounts for making purchases, sales and tax payments.
 - (2) The Board may specify to keep other records.
 - (2A) The Board may specify for any person to use electronic fiscal cash registers approved by the Board.
 - (3) The Board will prescribe procedure or software for electronic maintenance of records, filing of sales tax returns. The Board may further approve the software for above purposes.

- (4) A registered person whose accounts are audited under Companies Ordinance, shall submit a copy of the annual audited accounts, along with a certificate by the auditors certifying the payment of tax.

23. Tax Invoices.-

- (1) A registered person making a taxable supply shall issue a serially numbered tax invoice at the time of supply following particulars in Urdu or English language, namely:-

- (a) name, address and registration number of the supplier;
- (b) name, address and registration number of the recipient and NIC or NTN of the unregistered person, excluding supplies made by a retailer where the transaction value inclusive of sales tax amount does not exceed Rs. 100,000, if sale is being made to an ordinary consumer;

Explanation: Ordinary consumer means a person who is buying goods for his own consumption and not for the purpose of resale or processing

- (c) date of issue of invoice;
- (d) description, including count, denier and construction in case of textile yarn and fabric and quantity of goods;
- (e) value exclusive of tax;
- (f) amount of sales tax; and
- (g) value inclusive of tax;

The Board may specify modified invoices. For a taxable supply only one tax invoice shall be issued.

Further if it is subsequently proved that CNIC provided by the purchaser was not correct, liability of tax or penalty shall not arise against the seller, in case of sale made in good faith.

- (2) Only a registered person shall issue an invoice.
- (3) A registered person making a taxable supply may issue invoices to another registered person electronically and to the Board as well as to the Commissioner.

24. Retention of record and documents for six years.-

A person shall retain records/documents for a period of 6 years after the end of the tax period to which they relate or till final decision is received in proceedings for assessment, appeal and Alternative Dispute Resolution Committee.

25. Access to record, documents, etc.-

- (1) Production of records
A person maintaining records shall, on required by Commissioner, produce records in his possession. If record is kept on electronic data, he shall allow the officer to use the machine.
- (2) Commencement of audit
The officer of Inland Revenue after obtaining record may, once in a year, conduct audit:
If Commissioner has information that registered person is involved in tax fraud or evasion of tax, he may authorize an officer, not below the rank of Assistant Commissioner, to conduct inquiry/investigation.
If records of a person have been audited by Auditor-General of Pakistan, the officer can also conduct audit;.
- (2A) For above, the Commissioner may conduct audit proceedings electronically through video links, or other prescribed facility.
- (4A) Completion of audit
After completion of audit, the officer of Inland Revenue may, pass an assessment order (u/s 11) imposing the correct tax (charging default surcharge and penalty) and recovery of amount erroneously refunded.
- (5) If a registered person wishes to deposit short paid or evaded tax with default surcharge voluntarily, before receipt of notice of audit, no penalty shall be recovered:
If a registered person wishes to deposit short paid or evaded tax with default surcharge during the audit, or at any time before issuance of show cause notice, he may deposit evaded tax, default surcharge, and 25% penalty:
If a registered person wishes to deposit short paid or evaded tax with default surcharge after issuance of show cause notice, he shall deposit the evaded tax, default surcharge, and full penalty and then, the show cause notice, shall stand abated.

25A. Drawing of samples.-

Where an officer of Inland Revenue requires a sample of any goods for:

- determining tax liability or
- establishing their value or
- any other reason,

he may remove a minimum quantity for enabling proper examination.

While taking sample person in possession of the goods shall be informed and an opportunity will be given to:

- sign the representative samples so drawn, and
- take a corresponding sample for his record

Sample shall be taken against a proper receipt. The copy of receipt shall be kept in the record by the person and the LTU or RTO.

25 AA. Transactions between associates

The Commissioner or an officer may, in case of transactions between associates, determine the transfer price to reflect fair market value of supplies in an arm's length transaction. The Board may, by notification in the official gazette, prescribe rules for this purpose.

Chapter-V RETURNS

26. Return.-

- (1) Every registered person shall furnish till due date a true, complete and correct return in prescribed form upto 15th day of next month following the end of tax period to a designated bank or other office specified by the Board, indicating:

- the purchases and the supplies made during a tax period,
- the tax due and paid and
- such other information, as may be prescribed.

The Board may, require any person or class of persons to submit return on quarterly basis.

The Board may, require any person to submit return annually in addition to the monthly or quarterly return.

(3) Revision of return

A registered person may on approval of the Commissioner, file a revised return to correct any omission or wrong declaration. It can be revised within 120 days of the date of filing

Approval shall not be required in case revised return is filed within 60 days of filing of return if:

- the tax payable in revised return is more or
- the refund claimed in revised return is less

than the return required to be revised.

- (4) When filing a revised return the following amounts will be paid depending upon the time it is furnished:

Time of furnishing revised return	Amount required to be paid
Whenever it comes to his notice, before receipt of notice of audit	Amount of tax short paid/evaded + default surcharge + No penalty
During audit and before receipt of show cause notice	Amount of tax pointed out by officer of Inland Revenue + default surcharge +25 % of penalty
After issuance of show cause notice	Amount of tax evaded + default surcharge +100 % penalty [If this amount is paid the show cause notice shall stand abated]

- (5) The Board may, require certain persons to furnish summary of imports, purchases and supplies made during a tax period.

Particulars of monthly sales tax return

(1) The return shall indicate:

- (i) Sales tax registration number (STRN), name and address of the supplier.
- (ii) name, address and registration, number of the recipient and NIC or NTN of the unregistered person, as the case may be, excluding supplies made by a retailer where the transaction value inclusive of sales tax amount does not exceed rupees 100,000, if sale is being made to an ordinary consumer
- (iii) Date of issue of invoice;
- (iv) description, including count, denier and construction in case of textile yarn and fabric and quantity of goods;
- (v) Tax credit carried forward from previous period.
- (vi) Value of supplies
- (vii) Output tax due on supplies as under:
 - a) Local taxable supplies
 - b) Exempted supplies
 - c) Zero rated supplies
- (viii) Value of purchases
- (ix) Input tax paid on purchases as under:
 - a) Local taxed goods
 - b) Imported taxed goods
 - c) Exempted purchases
 - d) Zero rated purchases
 - e) Other purchases
- (x) Arrears payable
- (xi) Amount payable / refundable.

- The registered person shall deposit in bank, the tax indicated as "Sales Tax Payable" in the return.
- In case no sales tax is payable by the registered person, he shall file "Nil" return without depositing any tax.

26AB. Extension of time for furnishing return

- (1) A registered person required to furnish a return u/s 26 may apply to the Commissioner for an extension of time.
- (2) The application for extension will be made by the due date of furnishing the return.
- (3) After receiving application if Commissioner is satisfied that the applicant is unable to furnish the return by the due date because of –
 - (a) absence from Pakistan;
 - (b) sickness or other misadventure; or
 - (c) any other reasonable cause,
 the Commissioner may grant the applicant an extension of time.
- (4) What is the maximum period for which extension can be granted
 An extension should not exceed 15 days from the due date. In exceptional circumstances longer time may be granted.
 Where the Commissioner has not granted extension for furnishing return, the Chief Commissioner may on application made by taxpayer grant extension or further extension upto 15 days. In exceptional circumstances longer time may be granted.
- (5) If a person gets extension he will still be liable to pay the default surcharge.

27. **Special Returns.--**
In addition to return specified u/s 26-
- (a) a registered person shall furnish special return within such date and covering such period as specified by the Board.
The return shall contain information relating to:
- quantity manufactured,
 - purchases made,
 - goods supplied or
 - payment of arrears made.
- (b) the Commissioner may require any person whether, registered or not, to furnish a return and the person shall furnish it by the date specified by the Commissioner.
28. **Final Return-**
A person applying for de-registration shall before de-registration furnish a final return to the Commissioner. The manner and time will be directed by the Commissioner.
29. **Return deemed to have been made.-**
A return filed by an appointed representative shall be considered as having been filed by the person unless contrary is proved.

Restriction on input on supplies to unregistered persons (Sec 73(4), Sec 23, Sec 8)

A registered person can make sales to un-registered person upto:

- Rs. 10 million per person per month
- Rs. 100 million per person in a financial year

In case of non-compliance the supplier shall not be entitled to claim input tax.

[Refer Question on next page]

Note: Above provisions shall not apply to supplies made to Federal/provincial/local Government departments, diplomats and privileged persons.

Chapter 22: Sales Tax Act, 1990

Question-1

Star Enterprises has submitted the following data for the month of June:

Total sales- registered persons (taxable)	Rs. 50,000,000
Total sales - unregistered persons (taxable)	30,000,000
Export sales	13,000,000
Exempt supplies	1,000,000
Purchases from registered suppliers	28,000,000
Purchases from unregistered suppliers	14,500,000

Note: Total sales to unregistered persons (taxable) include Rs. 12 million sales to a single party which is unregistered.

Answer

Star Enterprises Sales tax Liability for the month of June

Calculation of tax liability

Output tax (80,000 x 17%)			Rs. in "000"
Less: Input tax (lower of)			13,600
- Actual input tax b/f input	3,443	3,443	
- 90% of output (13,600 x 90%)		12,240	(3,443)
			10,157
			900
			11,057
			658
Further tax @3% of sale to un-registered (30,000 x 3%)			
Tax Payable			
Refundable against exports			

(W-1) Calculation of input tax

Purchase from registered person (28,000 x 17%)	Rs. in "000"
Purchase from un-registered persons	4,760
	4,760

(W-2) Apportionment of input tax

	Turnover	Input tax
Taxable local supplies (registered and unregistered < 10 mill.) (50,000 + 18,000)	68,000	3,443
Taxable local supplies (unregistered > 10 mill.)	12,000	608 (Dead)
Exports	13,000	658
Exempt	1,000	51 (Dead)
	94,000	4,760

(W-3) Calculation of taxable sale

To Registered Customer Taxable supplies	Rs. '000'
To Unregistered Customer Taxable supplies < 10 million (Bal.)	50,000
To Unregistered Customer Taxable supplies > 10 million	18,000
	12,000
	30,000
	80,000

THE THIRD SCHEDULE

1. Fruit Juices and Vegetable Juices
2. Detergents
3. Toothpaste
4. Shaving Cream
5. Perfumery and Cosmetics
6. Ice Cream
7. Tea
8. Aerated Waters or Beverages
9. Syrups and Squashes
10. Cigarettes
11. Toilet Soap
12. Shampoo
13. Milky Drinks
14. Powder Drinks
15. Toilet paper & tissue paper
16. Spices sold in retail packing bearing brand names and trademarks.
17. Cement sold in retail packing
18. Shoe polish and shoe cream
19. Mineral / Bottled water
20. Other household and specified items

THE FIFTH SCHEDULE (ZERO-RATED SUPPLIES)

1. Sale to diplomats, diplomatic missions, privileged persons.
2. Sales to duty free shops
3. Sales of raw materials, for further manufacture of goods in the Export Processing Zone.
4. Sales of such locally manufactured plant and machinery to the Export Processing Zones
5. Supplies made to exporters under the Duty and Tax Remission Rules

THE SIXTH SCHEDULE (EXEMPT SUPPLIES)

1. Live Animals and live poultry.
2. Meat of bovine animals, sheep and goat
3. Fish
4. Eggs
5. Live plants
6. Pulses
7. Edible fruits excluding those bottled or canned
8. Red chillies excluding those sold in retail packing
9. Sugar cane.
10. Fruit juices, whether fresh, frozen or otherwise preserved but excluding those bottled, canned or packaged.
11. Ice and waters excluding those for sale under brand names or trademarks.
12. Bricks
13. Computer software

PRACTICE QUESTIONS

Question-1

Mr. Asim is involved in the manufacturing of cars and has provided the following data:

• Sale of cars to customers	6,000,000
• Car put to personal use	800,000
• Cars given in charity	1,600,000
• Cars shifted from factory for use in admin office	1,600,000
• Purchase of goods	4,000,000

Required:

Calculate his tax liability.

Answer-1

Output tax	(6,000,000 + 800,000 + 1,600,000 + 1,600,000) x 17%	1,700,000
Less: Input tax	(4,000,000 x 17%)	(680,000)
		1,020,000

Question-2

Sales – Taxable

Sales – Exempt

Purchases

Required: Calculate his tax liability

Answer-2

Calculation of sales tax liability for May

Output	(600,000 x 17%)	226,667	102,000
Less: Input (lower of):	- Actual	91,800	(91,800)
	- 90% x 102,000		10,200
			134,867
Tax payable			340,000
c/f – input	(226,667 – 91,800)		
(W-1) Input Tax	(2,000,000 x 17%)		

(W-2) Apportionment of input tax

Sale – Taxable

Sale – Exempt

Sale	Input Tax
600,000	226,667
300,000	113,333
900,000	340,000

Calculation of sales tax liability for June

Output	(700,000 x 17%)	119,000
Less: Input (Lower of):	51,567	
- Actual	134,867	186,434
Add: b/f input tax		107,100
- 90% of 119,000		(107,100)
		11,900

Refund of Rs. (186,434 – 107,100) = 79,334 can be claimed in next coming August.

(W-1) Input Tax (650,000 x 17%)

(W-2) Apportionment of input tax

Taxable
Exempt

Sale	Input tax
700,000	51,567
800,000	58,933
1,500,000	110,500

Question-3

Mr. Waleed provided following data:

- Sales – Taxable
- Sales – export
- Sales – Exempt
- Purchases from registered persons
- Purchases from unregistered persons

1,200,000
300,000
400,000
3,000,000
2,000,000

Required:

Calculate his tax liability.

Answer-3

Output tax (1,200,000 x 17%)

322,105

Less: Input Tax (Lower of):

183,600

(183,600)

- Actual

20,400

- 90% of 204,000

Sales tax payable

- Refundable against exports Rs. 80,526
- c/f input Tax Rs. 138,505 (322,105 – 183,600)

510,000

(W-1) Input Tax (3,000,000 x 17%)

(W-2) Apportionment of input Tax

Sale – Taxable

Sale – Exempt

Sales – Exports

Sale	Input
1,200,000	322,105
400,000	107,368
300,000	80,526
1,900,000	510,000

Chapter 22: Sales Tax Act, 1990

Question-4

Mr. Azhar has provided you the following information regarding the month of January 2011:

	Rs.
(i) Taxable supplies – registered persons	2,750,000
(ii) Taxable supplies – un-registered persons	200,000
(iii) Ice cream (an item of 3 rd Schedule – retail price Rs.1.5 million)	1,200,000
(iv) Life saving drugs – exempt goods	4,000,000
(v) Exports	2,000,000
(vi) Sales to employees	300,000
(vii) Sales to diplomatic mission	200,000
(viii) Goods taken for private use	50,000

1. Purchases of fixed assets amounted to Rs. 300,000. This figure is inclusive of sales tax.
2. Purchase of raw material from un-registered suppliers amounted to Rs. 1,800,000.
3. Purchase of raw material from Pakistan from registered suppliers amounted to Rs. 2,600,000.

Purchases include two invoices:

- one relating to March 2010 of Rs. 12,000 and
- other relating to September 2010 of Rs. 14,000.

The invoices were not accounted for in the relevant period because of their non-receipt.

4. Examination of creditors' ledger reveals that an amount of Rs. 100,000 is still outstanding on account of the purchase made from a registered supplier on July 12, 2010. The input tax on the said purchases was accounted for in the relevant tax period.

5. Import of raw material

- Value of documents retired during the period excluding custom duty	Rs. 20,000
- Rate of Customs duty	20%
6. Brought forward sales tax credit from previous month amounted to Rs. 700,000.
7. Debit notes issued during the tax period are:

Debit Notes issued for purchases returns of taxable supplies	148,529
--	---------
8. Goods purchased from unregistered suppliers are exclusively used for making taxable supplies (local).
9. Input tax on Motor vehicles purchased amounted to Rs. 200,000.
10. Supplies having market price of Rs. 10,000 have been replaced free of cost.
11. Settlement/cash discount allowed on taxable sale is Rs. 2,000.

Required:

- (a) Compute the sales tax payable/refundable.
- (b) Input tax credit to be carried forward, if any.

Chapter 22: Sales Tax Act, 1990

Answer-4

Calculation of tax liability

Output tax	(4,800,000 x 17%)	175,327	816,000
Less: Input tax (lower of)		700,000	
-Actual input tax			
b/f input			
-90% of output	(816,000 x 90%)	734,400	(734,400)
Less: Input on fixed assets			81,600
Further tax @ 3% of sale to un-registered	(200,000 x 3%)		(19,021)
Sales tax Payable			62,579
c/f input	(875,327 - 734,400)		6,000
Refundable against zero-rated	(80,358 + 8,718)		68,579
			140,927
			89,076

Workings

W-1: Calculation of input tax

Common input

Purchase of raw material

Imports

Less: Purchase return

Less: Creditors not paid in 6 months

(2,600,000 - 12,000) x 17%	439,960
(20,000 + (20,000 x 20%)) x 17%	4,080
(148,529 x 17%)	(25,250)
(100,000 x 17%)	(17,000)
	401,790

Input on fixed assets

Fixed assets

$$(300,000 / 117 \times 17)$$

43,590

W-2: Apportionment of input tax

Taxable local supplies

Zero-rated (2,000,000 + 200,000)

Exempt

Turnover	Common Input	Fixed assets
	A	B
4,800,000	175,327	19,021
2,200,000	80,358	8,718
4,000,000	146,105	15,851
11,000,000	401,790	43,590

W-3: Calculation of output tax

Sales to un-registered persons

Sales to other than un-registered persons

Taxable supplies – registered

Ice cream supplies

Sales of employees

Private use

200,000
2,750,000
1,500,000
300,000
50,000
4,800,000

Not included:

1. Invoice of Rs. 14,000 is ignored as it is properly deducted within in 6 months.

Chapter 22: Sales Tax Act, 1990

Question-5

Following data is provided by Mr.X for the month of January

Taxable Sales to	-	Registered customers	900
	-	Un-Registered customers	800
Export sales			500
Exempt sales			300
Purchases from	-	registered supplier	4,000
	-	Un-registered supplier	1,000

Answer-5

Mr. X

Month of January

Sales tax liability

Output $(900 + 800) = 1,700 \times 17\%$

289

Less: Input (lower of:)

- Actual = 462

- 90% of output $(90\% \times 289) = 260$

(260)

29

24

53

Add: 3% further tax on sale to un-registered $(3\% \times 800)$

Payable to Government

136

Refundable against zero rate

202

C/f input to next month $(462 - 260)$

WORKINGS

(W-1) Input Tax

Purchased – registered $(4,000 \times 17\%)$

680

Purchase – Unregistered

0

680

(W-2) Apportionment of input

Taxable

1,700

462

Zero

500

136

Exempt

300

82

2,500

680

1. Short title, application and commencement [Rule 1]
2. Definitions [Rule 2]
3. Requirement of registration [Rule 4]
4. Application for registration [Rule 5]
5. Temporary registration [Rule 5A]
6. Compulsory registration [Rule 6]
7. Change in the particulars of registration [Rule 7]
8. Transfer of registration [Rule 8]
9. Option to file application with Commissioner [Rule 9]
10. Cancellation of multiple registrations [Rule 10]
11. De-registration [Rule 11]
12. Blacklisting and suspension of registration [Rule 12]
13. Filing of returns [Rule 14]
14. Filing of Annual Sales Tax return [Rule 17]
15. Electronic filing of Sales Tax return (Rule 18)
16. Cancellation or return of supply [Rule 20]
17. Change in value of supply or amount of sales tax [Rule 21]
18. Adjustment of input and output tax [Rule 22]
19. Destruction of goods [Rule 23]
20. Determination of input tax [Rule 25]

CHAPTER 23

SALES TAX RULES, 2006

Abbreviations used

LRO:	Local Registration Office
CRO:	Central Registration Office
RTO:	Regional Tax Office
LTU:	Large Taxpayer Unit

Short title, application and commencement.—

These Rules may be called the Sales Tax Rules, 2006.

Definitions. -

- (xxxv) "nil return" is a return indicating that no sales tax is payable by the registered person for the tax period;
- (xlvi) "residual input tax" is the tax paid on raw materials, components and capital goods used for making taxable as well as exempt supplies. It does not include the input on raw materials used wholly for making taxable or exempt supplies;

CHAPTER- I

REGISTRATION, COMPULSORY REGISTRATION AND DE-REGISTRATION

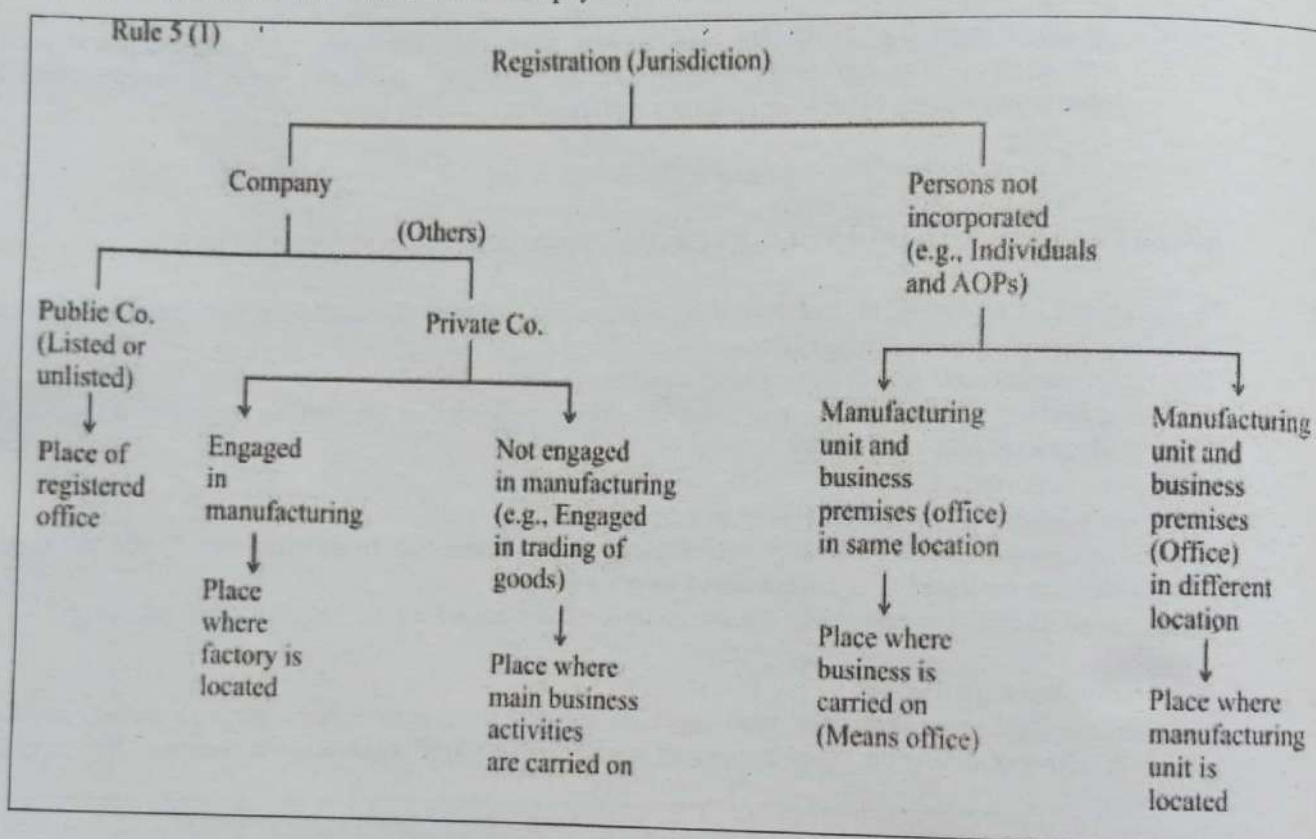
4. **Requirement of registration:** The following persons making taxable supplies in Pakistan (including zero-rated supplies) are required to be registered:--
- a manufacturer who is not running a cottage industry;
 - a retailer who is liable to pay sales tax except such retailer required to pay sales tax through his electricity bill;
 - an importer;
 - a wholesaler (including dealer) and distributor;
 - a person required, under any other Federal or Provincial law, to be registered for the purpose of any tax collected as if it were a levy of sales tax; and
 - a commercial exporter who intends to obtain sales tax refund for his zero-rated supplies.
5. **Application for registration:**
- (1) A person required to be registered shall apply on computerized system for it through owner, member or partner or authorized director. Application will specify RTO where registration is required. The jurisdiction is as follows:

Person	Area where registration required
a) in case of listed or unlisted public limited company	the place where the registered office is located
b) in case of other companies	(i) if the company is engaged in manufacture or processing, the place where factory is situated; (ii) if the company is engaged in business other than manufacture or processing, the place where main business activities are carried on;
c) in case of a person not incorporated	the jurisdiction where business is actually carried on
d) in case of a person not incorporated, having a single manufacturing unit and whose business premises and manufacturing unit are in different location	the jurisdiction where the manufacturing unit is located

The jurisdiction of Large Taxpayers Units shall be specified by the Board.

- (2) FBR may transfer registration where place of business or registered office or manufacturing unit is located. The applicant having NTN or income tax registration shall, using his login credentials, upload following information and documents:

- a. bank account certificate issued by the bank in the name of the business;
 - b. registration or consumer number with the gas and electricity supplier;
 - c. particulars of all branches in case of multiple branches at various locations;
 - d. GPS-tagged photographs of the business premises; and
 - e. in case of manufacturer, also the GPS tagged photographs of machinery and industrial electricity or gas meter installed.
- (3) On furnishing above documents, the system shall register the applicant for sales tax.
 - (4) After registration, the applicant or his authorised person shall visit e-Sahulat Centre of NADRA within a month for bio metric verification. In case of failure, the name shall be taken off the sales tax Active Taxpayer List.
 - (5) In case of manufacture, the Board may require post verification through field offices or a third party.
 - (6) In case the field office, finds that any document provided is non genuine or fake or wrong, it may request through the system, to provide the missing document, in 15 days. In case of failure the registered person shall be taken off from the sales Active Taxpayer List.



5A. Temporary registration

- (1) Where a manufacturer files application for sales tax registration as a manufacturer without installing machinery (for the purpose of import) temporary registration shall be allowed to him for a period of 60 days if he furnishes complete list of machinery to be imported along with Bill of Lading or Goods Declaration.
- (2) The temporary registration shall be issued by the computerized system within 72 hours of filing of the complete application.
- (3) The person shall now import plant, machinery and raw materials, etc. as a manufacturer, if he submits to the customs authorities a post-dated cheque of taxes.
- (4) If list of machinery installed is not submitted within 60 days of temporary registration, such temporary registration shall be disabled and the post-dated cheques shall be encashed.
- (5) A person holding temporary registration shall file monthly return, but shall not issue a sales tax sales invoice and if such invoice is issued, no input tax shall be admissible to his buyers.
- (6) No sales tax refund shall be paid during the period of temporary registration and input may be carried forward to his returns for subsequent tax periods.

6. **Compulsory registration**
 (1) If a person required to be registered does not apply for it, the Commissioner may issue a notice to such person.
 (2) If Commissioner receives a reply from the person, contesting his liability to be registered, he shall personally hear the case. Then, he may pass an order for compulsory registration. Copy of order shall be provided to that person. The order shall be entered in computerized system.
 (3) If a person does not respond to the notice, Commissioner shall compulsorily register through computerized system and will inform him through courier service.
 (4) A compulsorily registered person will comply with all provisions of Act. If he fails to do so, the Commissioner may:
- issue notice for production of records and
 - require him to appear in person
- to assess the sales tax (u/s 11 of the Act).
 If later on it is found that a person was not liable to be registered but wrongly registered due to error the Commissioner shall cancel the registration through computerized system. Now he shall not pay any tax, default surcharge or penalty. However he will only pay excess tax collected (u/s 3B).
7. **Change in the particulars of registration. –**
 (1) In case of change in the name, address or other particulars in registration certificate, the person shall notify it in computerized system in 14 days of change.
 (2) The change as 'manufacturer' shall be allowed if all conditions in Rule 5 are fulfilled.
 (3) If change is approved, computerized system will issue revised registration certificate. The effective date shall be the date the person applied for change.
 (4) The Commissioner may based on available information, after inquiry make modifications in the registration of the person.
8. **Transfer of registration**
 (1) The Board may transfer the registration of a person from jurisdiction of one LTU or RTO to another.
 (2) On transfer of registration,-
 a) all records/responsibilities of registered person shall be transferred to new LTU or RTO;
 b) the LTU or RTO where registration is transferred shall now exercise jurisdiction regarding actions taken or pending against taxpayer
 (3) In case of transfer, the Board shall issue intimation letter to the person along with a copy to LTU or RTO.
 (4) If a person intends to shift his business activity from the jurisdiction of one LTU or RTO to another, he shall apply to the Board. The Board shall follow the procedure as per sub-rules (2) and (3).
9. **Option to file application with Commissioner:**
 A person unable to file application for registration or change in particulars directly in computerized system, he may submit data to Commissioner, who shall ensure entries in system within 3 days.
10. **Cancellation of multiple registrations. –**
 (1) A person holding multiple sales tax registrations shall retain only 1 and surrender others to Commissioner.
 The Board may, allocate separate registration for manufacturing units in different LTU or RTO.
 (2) The tax liabilities of cancelled registration shall be transferred to retained. If registrations are in the different LTUs or RTOs, the old Commissioner shall transfer the tax arrears files to the new LTU or RTO.
11. **De-registration.**
 (1) Every registered person:
 o who ceases to carry on his business or
 o whose supplies become exempt from tax
 o who transfers or sells his business,
 o who merges with another person
 o who fails to file return for 6 consecutive months or
 o who ceases to remain registered
 shall apply to the Commissioner having jurisdiction for cancellation of his registration.

The Commissioner, on receiving application or on his own initiative may issue order of de-registration or cancellation of registration, with in the later of following:

- 90 days from the date of application or
- the date all outstanding liabilities are deposited by him.

The person shall be deregistered through computerized system accordingly.

- (2) The Commissioner, will complete audit proceedings within 90 days of date of application and direct the applicant to discharge any outstanding liability by filing a final return (u/s 28):
- (3) A person applying shall not be de-registered unless he provides record for the purpose of audit or inquiry.
- (4) The person will be de-registered after a notice is issued and opportunity of being heard is provided to him.
- (4) The liabilities before de-registration, shall not be affected because of cancellation/cessation of registration.

Illustration

Mr. Umar applied for de-registration on 05th March 2020. Determine the date by which commissioner may issue order of de-registration if outstanding:

- (a) Tax liability is paid on 15th May 2020;
- (b) Tax liability is paid on 12th July 2020.

Solution

(a) The Commissioner may issue order of de-registration within later of following:

- 90 days from the date of application i.e. 3rd June 2020; or
- The date all outstanding liabilities are deposited by him i.e. 15th May 2020.

As 3rd June 2020 is later, the Commissioner may issue order of de-registration by 3rd June 2020.

(b) The Commissioner may issue order of de-registration within later of following:

- 90 days from the date of application i.e. 3rd June 2020; or
- The date all outstanding liabilities are deposited by him i.e. 12th July 2020.

As 12th July 2020 is later, the Commissioner may issue order of de-registration by 12th July 2020.

12. **Blacklisting and suspension of registration. –**

Where the Commissioner or Board thinks that registered person is to be suspended or blacklisted, for ensuring that the LTUs and RTOs follow a uniform policy for suspension/blacklisting, the following procedure shall be followed:-

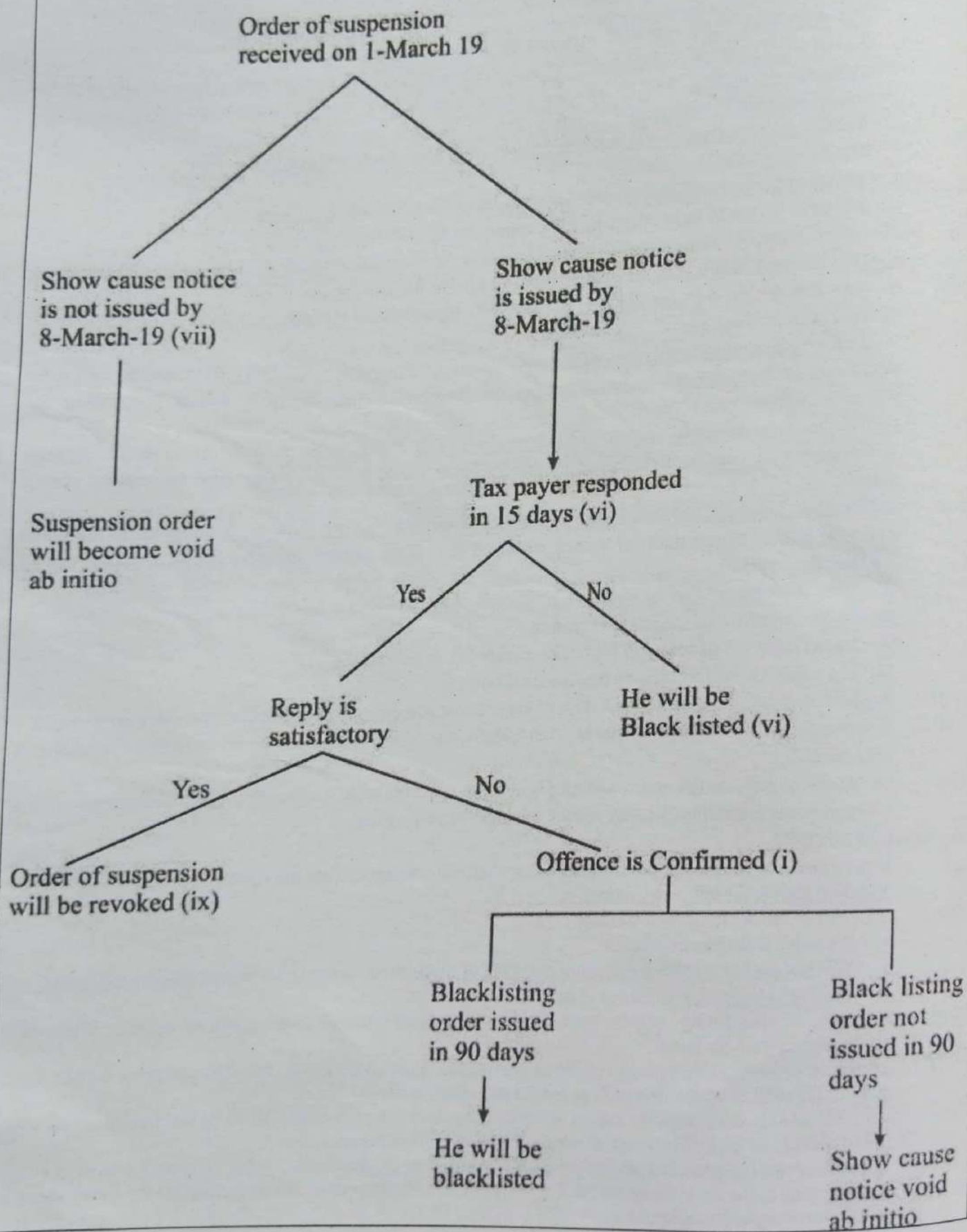
(a) **SUSPENSION**

- (i) Where Commissioner is satisfied that a registered person has issued fake invoices, evaded tax or committed tax fraud, registration may be suspended through the system, without prior notice, pending further inquiry. The basis may include:-
- non-availability of the registered person at the given address;
 - refusal to allow access to business premises or refusal to furnish records to Inland Revenue Officer;
 - abnormal tax profile, such as taking excessive input tax adjustments, continuous carryforwards, or sudden increase in turnover;
 - making substantial purchases/supplies from/to other blacklisted or suspended person;
 - non-filing of sales tax returns;
 - on recommendation of a commissioner of any other jurisdiction;
 - any other reason to be specified by the Commissioner;
- (ii) the written order of suspension shall give the reasons for suspension. Order shall be sent to the registered person, all other LTUs/RTOs, the FBR's computer system for information;
- (iii) if a registered person does not file sales tax return for 6 consecutive months, he shall be suspended through the system without notice;
- (iv) in cases, where the buyers/suppliers of suspended person, belongs to another LTU/ RTO, and they are to be suspended as well, the Commissioner shall inform Chief Commissioner to initiate proceedings for suspension/blacklisting of them;
- (v) no input tax refund shall be admissible to suspended person. Similarly, no input tax refund shall be allowed to the buyers on sales invoices issued by him (whether issued prior to or after such suspension), during suspension;
- (vi) the Commissioner shall, within 7 days of order of suspension, issue a show cause notice to the registered person to afford an opportunity of hearing within 15 days of the issuance of notice clearly indicating that he will be blacklisted if:
- there is no response to the notice;
 - he has not provided the required record;
 - he has not allowed access to his business record or premises; and
 - any other reason specified by the Commissioner;
- (vii) in case notice is not issued within 7 days of the order of suspension, the order shall become void ab-initio;
- (viii) if suspended person is not available at given address, the notice may be affixed on the main notice Board of the LTU/RTO;
- (ix) on receipt of reply to the notice and after giving an opportunity of hearing to the registered person, if the Commissioner is satisfied, he may revoke the order of suspension;

(b) **BLACKLISTING**

- (i) If the offence is confirmed, the Commissioner shall issue an appealable self-speaking order for blacklisting, and shall start legal and penal action;
- (ii) the order of blacklisting shall contain:
- the reasons for blacklisting,
 - the time period for which refund of input tax of blacklisted person or his buyers shall be inadmissible,
 - any tax to be paid or penalties to be imposed;
- (iii) the order of blacklisting shall be issued within 90 days of issuance of the notice of hearing, otherwise it shall become void ab-initio
- (iv) copies of order shall be sent to registered person, all other LTUs/RTOs, the FBR computer system. Each LTU/RTO shall circulate lists to their refund and audit sections;
- (v) all LTUs/RTOs shall circulate copies of order along with list of invoices issued by the blacklisted persons, to all officers of Inland Revenue, in whose jurisdiction their buyers are
- (vi) the officer receiving the list shall issue show-cause notice [under section 11] to registered persons (buyers) for rejecting input tax claimed on sales invoices of blacklisted person and further decide the matter through a self-speaking appealable order.

SUSPENSION AND BLACKLISTING DECISION TREE



**CHAPTER-II
FILING OF RETURNS**

14. Filing of returns-

(2) Return for person operating in different sectors

Where a person operates in different sectors where different dates of filing of return have been prescribed in the Sales Tax Act, or Federal Excise Act, he shall file a single return for all sectors by the due date applicable to his major activity.

17. Filing of Annual Sales Tax return - Every registered person which is a private or public limited company, shall file annual sales tax return, for a financial year by the 30th September of the following financial year.

18. Electronic filing of Sales Tax return:

The return filed electronically on the web or any magnetic media or computer readable media shall be considered as a return and the Board may, make rules for determining eligibility of data of such returns and e-intermediaries who will digitize data and transmit return electronically under their digital signatures. [S. 26 (1)]

- (1) Every registered person required to file return or statement shall file them electronically in manner specified by the Board.
- (7) A registered person filing returns electronically shall pay sales tax in any of the designated branches of the NBP on the prescribed payment challan or through electronic payment system.
- (8) In cases where due date is 15th of a month, the tax shall be deposited by the 15th and the return shall be submitted electronically by 18th of the same month.

CHAPTER-III CREDIT AND DEBIT NOTE AND DESTRUCTION OF GOODS

Four scenarios

1. On sale return seller will receive debit note if the buyer is registered person
2. On sale return seller will issue credit note if the buyer is unregistered person
3. On increase in value of sale seller will issue debit note.
4. On decrease in value of sale seller will issue credit note. In response to this buyer shall issue debit note.

Description	Dawlance (seller) books	Honda (buyer) books	Notes
Dawlance sold goods to Honda. Honda returned the goods.		Creditors Purchases return	Debit Note
Dawlance sold goods to Faheem (un-registered person) and Faheem returned the goods.	Sales return Debtors		Credit Note
Dawlance sold the goods and later on it increased the sales price.	Debtor Sales		Debit Note
Dawlance sold the goods and later on it decreased the sales price.	Sales Debtors	Creditors Purchases	Credit Note and Debit Note

20. Cancellation or return of supply.—

(1) Where:

- a registered person has made a supply, and
- such supply (or part thereof) is cancelled or returned,
- the buyer shall issue a Debit Note (in duplicate), indicating:
 - the quantity returned or cancelled,
 - its value on the basis of the value of supply shown in tax invoice issued by the supplier (seller),
 - the amount of related sales tax, and
 - the following, namely:-
 - (i) name and National Tax Number of the recipient (buyer);
 - (ii) name and National Tax Number of the supplier (seller);
 - (iii) number and date of the original sales tax invoice;
 - (iv) the reason of issuance of the Debit Note; and
 - (v) signature and seal of the authorized person issuing the note.

(2) The original copy of debit note shall be sent to the supplier and the duplicate shall be retained for record.

(3) If the supply is being returned/cancelled by an unregistered person (buyer), the supplier shall issue a credit note providing the same particulars as above [as are specified in sub rule (1)] and keep a copy for record.

(1)

Example 1

Honda has purchased a refrigerator from Dawlance by paying Rs. 100 + 17. The Honda later on returned the refrigerator.

Where:

- a. Dawlance has made a sale to Honda and
- b. Such sale is returned
- c. The Honda shall issue a debit note, indicating:
 - the quantity being returned (in this case 1)
 - Rs. 117
 - Rs. 17
 - The following
 - i) Name and NTN of Honda
 - ii) Name and NTN of Dawlance

- (2) The original copy of the debit note shall be sent to the Dawlance and the duplicate copy shall be retained for record.

(3)

Example 2

Mr. Umer Noman student at RISE (un-registered person) has purchased a refrigerator from Dawlance by paying Rs. 100 + 17. Mr. Umer Noman later on returned the refrigerator.

If the supply is returned by Umer Noman (an un-registered person) the Dawlance shall issue a credit note.

21. Change in value of supply or amount of sales tax.—

(1) Where for any valid reason:

- the value of supply or
- the amount of sales tax

mentioned in invoice issued has increased, the supplier (seller) shall issue a Debit Note (in duplicate), with the following particulars, namely:--

- (i) name and National Tax Number of the supplier (seller);
- (ii) name and National Tax Number of the recipient (buyer);
- (iii) number and date of the original sales tax invoice;
- (iv) the original value and sales tax as in original invoice;
- (v) the revised value and sales tax;
- (vi) the difference of value and sales tax adjustable;
- (vii) the reason for revision of value; and
- (viii) signature and seal of the authorized person issuing the note.

(2) Where, for any valid reason:

- the value of supply or
- the amount of sales tax

mentioned in the invoice issued has decreased, the supplier (seller) shall issue a Credit Note (in duplicate), with the same particulars as specified in sub-rule (1).

(3) The original copy [as referred to in sub-rules (1) and (2)], shall be sent to the recipient (buyer) and the duplicate shall be retained for record.

In respect of a case falling under sub-rule (2), the recipient (buyer) shall issue a Debit Note in response to Credit Note issued by the supplier as an acknowledgment of the receipt. Same details will be provided in the Debit note.

(1)

Example 3

Honda has purchased a refrigerator from Dawlance by paying Rs. 100 + 17. Later on Dawlance informed that the actual price was Rs. 200 so Honda needs to pay further Rs. 100 + 17.

Where for any valid reason the value of sale mentioned in the invoice issued has increased, the Dawlance shall issue a Debit Note with the following particulars:

- (i) name and National Tax Number of the Dawlance;
- (ii) name and National Tax Number of the Honda;
- (iv) Rs. 100 + 17;
- (v) Rs. 200 + 34;
- (vi) Rs. 100 + 17

(2)

Example 4

Honda has purchased a refrigerator from Dawlance by paying Rs. 500 + 85. Later on Dawlance informed that the actual price was Rs. 400 so Honda will receive back Rs. 100 + 17.

Where, for any valid reason:

- the value of supply or

mentioned in the invoice issued has decreased, the Dawlance shall issue a Credit Note.

(3) The original copy of the note as referred to in sub-rules (1) and (2), shall be, sent to Honda and the duplicate shall be retained for record.

Example 5

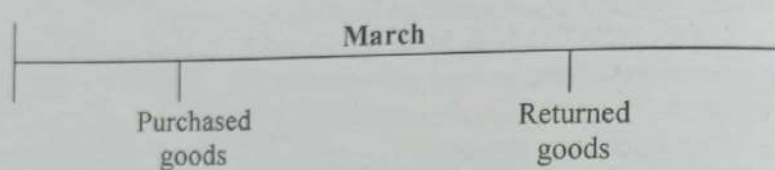
In case of Ex. 4 above Honda shall issue a debit note.
In respect of a case falling under sub-rule (2), the Honda shall issue a Debit Note with reference to the Credit Note issued by the Dawlance as an acknowledgment of the receipt of the same.

22. Adjustment of input and output tax.—

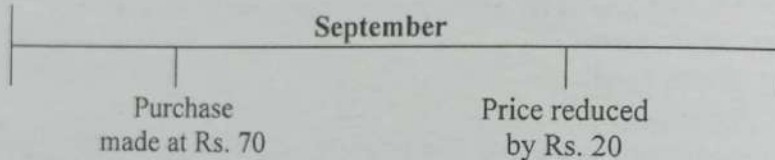
(1) Where:

- the buyer has returned/cancelled a supply or
 - the tax for sale has been reduced
- the buyer shall not be entitled to claim input tax.

It refers to a scenario where the return is made in the same month in which goods are purchased

ExampleEx. 1)

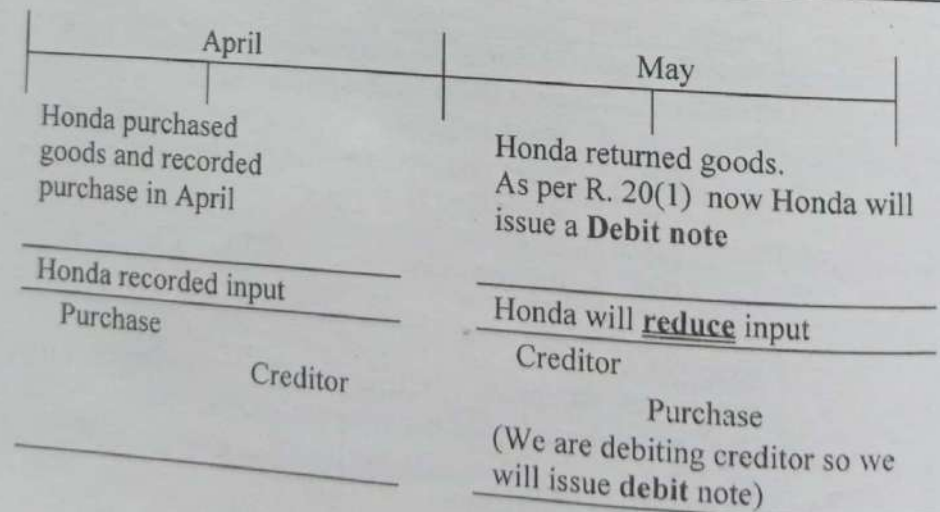
In above case we will not record input in March

Ex. 2)

In above case we should record net purchase at Rs. 50

(2) Where the buyer has already claimed input tax credit for purchase, he shall reduce or increase input tax with the amount mentioned in the Debit Note or Credit Note, in the return of period in which the note was issued.

It refers to a scenario where the return is made in the any of the next month in which goods are purchased

Books of Buyer

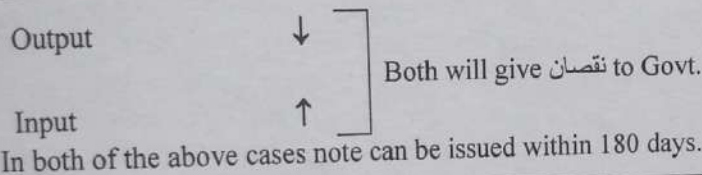
- (3) Where the supplier (seller) has already recorded output tax in the return for the supplies against which Debit Note was issued subsequently, he may increase or reduce output tax by amount mentioned in the Debit Note, in the return of period in which the note was issued.
If goods are returned by an unregistered person, the adjustments referred above can be made on Credit Note issued by the supplier (seller).

Books of Seller

September		October	
Dawlance Sold goods for Rs. 70		Dawl. Increased sale price by Rs. 40. As per R. 21(1) Dawl. will issue Debit note	
Dawlance recorded sales		Dawl. will <u>increase</u> output	
Debtor	70	Debtor	40
Sale	70	Sale	40

- (4) Where output is reduced or input is increased, the adjustment can only be made if the Debit/Credit Note is issued within 180 days of the relevant supply:
However Commissioner may, at the request of the supplier (seller) extend the period by further 180 days.

Example



- (5) Where a cancelled or returned supply is subsequently supplied to the:
- original buyer or
 - some other person
- with or without repairs, supplier shall charge sales tax in the normal way in return of the period in which these goods were supplied.

Example

Jan		Feb
Sold to customer	Returned By customer	Sold again (It is treated as normal sales in February)

23. Destruction of goods.

Where goods are returned by the buyer because these are unfit for consumption and are to be destroyed by the supplier (seller), the supplier shall destroy goods after obtaining permission from the Commissioner. The goods will be destroyed under the supervision of an Inland Revenue Officer not below the rank of an Assistant Commissioner. The input tax credit in respect of goods destroyed shall not be admissible.

Note: If the goods are destroyed in above manner output will not be charged. However if the goods are not destroyed in above manner output will be paid by us through our own pocket.

CHAPTER-IV APPORTIONMENT OF INPUT TAX

25. Determination of input tax.

- (1) Input tax paid on raw material purchased for only taxable supplies shall be admissible.
- (2) Input tax paid on raw material purchased for only exempt supplies shall not be admissible.
- (3), (5) The input tax for both exempt and taxable supplies shall be apportioned according to following formula:

$$\text{Residual Input Tax Credit on taxable supplies} = \frac{\text{Value of taxable supplies}}{(\text{Value of taxable} + \text{exempt supplies})} \times \text{Residual input}$$
- (4) An input tax claimed wrongfully because of incorrect application of formula shall be punishable.
- (4) Monthly adjustment of input tax shall be treated as provisional adjustment and at the end of financial year, the registered person shall make final adjustment on basis of taxable and exempt supplies made during the year.

Monthly Adjustment اندازہ ہے اور سال کے آخر میں پورے سال کی Figures ڈال کر Final adjustment کریں گے

Explanation of Rule 25 (3) (5)**Month of March**

	Sale	Input	
Taxable	50	13	Residual input tax credit
Exempt	<u>30</u>	<u>Dead</u>	
	<u>80</u>	<u>20</u>	Residual input (common input)

$$\text{Residual input tax credit} = \frac{\text{Value of taxable sale}}{(\text{taxable} + \text{exempt})} \times \text{residual input}$$

$$13 = \frac{50}{50 + 30} \times 20$$

LECTURE NOTES

Question-1
Azhar has provided you the following information regarding the month of January 2011:

Details of supplies	Rs.
Local taxable supplies to registered persons (including advance of Rs. 30,000)	2,750,000
Local taxable supplies to un-registered persons	200,000
Supply of Ice cream (an item of 3rd Schedule - retail price Rs.1.5 million)	1,200,000
Goods taken for private use	50,000
Life saving drugs - exempt goods	4,000,000
Exports	2,000,000

Other information

A new machine purchased for Rs. 300,000 was commissioned into operations during January 2011.

Purchase of raw material from un-registered suppliers amounted to Rs. 1,800,000.

Purchases include three invoices:

- One relating to March 2010 of Rs. 12,000 and
- Other relating to September 2010 of Rs. 14,000.
- An other relating to fake invoice of Rs. 3,000.

Debit and credit notes issued during the tax period are:

- | | | |
|------|--|---------|
| (i) | Sub-standard supplies were returned to vendors. Proper debit/credit notes were raised in this regard. | 140,000 |
| (ii) | Goods were returned by different customers. Proper debit/credit notes were raised within the specified period. | 250,000 |

Sales tax credit brought forward from previous month amounted to Rs. 700,000.

Sales tax is payable at the rate of 17%. All the above figures where applicable are exclusive of sales tax.

Required:

Compute the sales tax payable/refundable.

Input tax credit to be carried forward, if any.

Note: show all relevant exemptions, exclusions and disallowances.

Question-2

Faiz Associates (FA) is a partnership concern and registered under the Sales Tax Act, 1990 as manufacturer-cum-distributor. Following information has been provided by FA for the month of January 2018:

	Rupees
Supplies	3,450,000
Taxable goods to registered customers	1,000,000
Taxable goods to un-registered customers	500,000
Consumable goods supplied on PIA's international flight	700,000
Local sales zero rated	
Purchases	2,000,000
Taxable goods from registered suppliers	450,000
Taxable goods from un-registered suppliers	600,000
Exempt goods from registered suppliers	265,000
Input tax brought forward from December 2017	

Additional information:

- (i) Supply of taxable goods to registered customers include the following:
 - Goods amounting to Rs. 80,000 sold to Hafiz Brothers (HB) on 31 January 2018. HB started business in January 2018 and had filed an application for registration under the Sales Tax Rules 2006 on 30 January 2018. However, no sales tax registration number was issued till 31 January 2018.
 - Goods having market value of Rs. 600,000 which were supplied to Parveen Limited, an associated company, for Rs. 500,000.
 - On 1 January 2018, FA launched 'Halloween Tooth Brush' which is covered under 3rd schedule. The retail price of the tooth brushes is Rs.100 each. However, being the first month of launching, it was sold at a discounted price of Rs.75 each. 4,000 tooth brushes were sold in January 2018.
- (ii) Purchases from registered suppliers include:
 - purchase of two air-conditioners amounting to Rs. 150,000 for FA's new office.
 - an invoice of Rs. 100,000 dated 22 January 2018 issued by Taqi Corporation (TC). However, TC was blacklisted by the Commissioner on 28 January 2018.
 - material worth Rs.350,000 the payment of which was made by depositing cash directly in the business bank account of the supplier.
 - material worth Rs.200,000 against which a discrepancy has been indicated by the CREST.
 - a new machine purchased for Rs. 350,000 which was commissioned into operation during January.
- (iii) On 1 January 2018, FA executed an agreement with Majeed Sons (MS) for sale of locally purchased goods worth Rs.225,000. The agreement empowers MS to obtain delivery of these goods anytime it likes.
- (iv) Sales tax of Rs. 70,000, Rs. 45,000 and Rs. 68,000 was paid in cash on electricity, gas and telephone bills respectively.
- (v) Five electric kettles worth Rs. 75,000 were purchased for use in the offices of factory manager and first line-supervisors of production workers.
- (vi) During the month, FA paid Sindh Sales Tax worth Rs. 8,500 on franchise services.

Under the Sindh Sales Tax Laws, such tax is not an admissible credit.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 17%.

Required:

Compute sales tax payable by or refundable to Faiz Associates along with input tax to be carried forward, if any, in the sales tax return for the month of January 2018. (18)

Note: show all relevant exemptions, exclusions and disallowances.

Question-3

Mulaqat Associates (MA), an association of persons, is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and distribution of various products. Following information has been extracted from MA's records for February 2016:

Supplies:

	Rupees
Jet fuel to Pak Airways proceeding to Oslo	
Taxable goods to registered customers - corporates and others as well	500,000
Taxable goods to un-registered customers	590,000
	375,000
Purchases:	
Taxable goods from registered suppliers	
Taxable goods from un-registered suppliers	
Imports - raw material	650,000
	150,000
	280,000

Following information is also available:

- Taxable goods purchased from registered suppliers include furniture of Rs. 45,000 which was acquired for use in the office of marketing manager.
- MA purchased 150 bags of cement, covered under Third Schedule, for the construction of a bungalow for managing partner. Cement was purchased at the wholesale price of Rs. 400 per bag. However, the retail price was Rs. 500 per bag.
- Advance of Rs. 268,000 was made to Nomi Corporation for the purchase of packing materials.
- MA sold goods worth Rs. 52,000 to one of its customers on two months credit. The amount was inclusive of 4% mark-up.
- MA distributed free samples of one of its new detergents Zeta among corporate clients. The value of these samples amounted to Rs. 65,000.
- Sales tax credit brought forward from January 2016 amounted to Rs. 245,000.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 17%.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by/refundable to MA and the amount of sales tax to be carried forward, if any, for the tax period February 2016.

Note: show all relevant exemptions, exclusions and disallowances.

Question-4

Samaaj Associates (SA) is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacturing and trading of electronic, chemical and other consumer goods. Following information has been extracted from SA's records for the month of August 2016:

Supplies

- To registered customers/wholesalers/dealers/retailers
- To registered corporate customers – manufactured goods
- To registered corporate customers – purchased goods
- To un-registered persons
- To persons registered as exporter

Rupees

2,000,000
300,000
200,000
875,000
625,000

Purchases:

- Raw material from registered persons
- Finished goods from un-registered persons
- Packing material from registered persons
- Local machinery from un-registered persons
- Taxable goods from cottage industry
- Imports-finished goods (includes 20% custom duty)

930,000
725,000
510,000
360,000
20,000
472,000

1. Packing material from registered persons include material worth Rs. 150,000 which was used for packing electric motors. On 31 August 2016 these motors were still part of SA's unsold stock.
2. A registered supplier had supplied goods worth Rs.50,000 to SA in August 2016. However, SA did not receive the sales tax invoice from the supplier.
3. Input tax amounting to Rs.55,900 was paid in April, 2016 but inadvertently it could not be claimed in the return.
4. SA purchased high quality cables and wires worth Rs. 250,000 from a registered supplier.
5. On 5 August 2016 SA received advance of Rs. 600,000 against supply of electric shavers to Bari Electronics. SA agreed to deliver the goods in September 2016.
6. Another machine purchased from registered supplier for Rs. 200,000. It is inclusive of sales tax.
7. On 10 February 2016 SA purchased liquid nitrogen worth Rs. 300,000 from Mughal Chemicals (MC), a registered supplier, on credit. On 15 August 2016 SA paid the outstanding amount to MC by way of a crossed cheque drawn on SA's bank account.
8. In December 2015 SA inadvertently charged sales tax of Rs. 58,000 instead of 85,000 on supply of chemicals to one of its registered customers. So far, SA has not obtained permission from the Commissioner Inland Revenue for revision of return.
9. In July 2016 unadjusted input tax in excess of 90% of output tax amounted to Rs. 10,000.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 17%.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to SA and the amount of sales tax to be carried forward, if any, for the tax period August 2016.

Note: Show all relevant exemptions, exclusions and disallowances.

Question-5

Jahangir Ali (JA) is registered under the Sales Tax Act 1990. JA runs multiple businesses. Following information has been extracted for the month of February 2017:

	Rupees
Supplies	
Taxable goods exported to Qatar	100,000
Taxable goods to registered customers	750,000
Taxable goods to unregistered customers	550,000
Exempt goods to unregistered customers	50,000
Purchases	
Taxable goods from registered suppliers	3,000,000
Taxable Packing material from registered suppliers - for taxable sale	200,000
- For exempt sale	60,000
Exempt goods from registered suppliers	70,000
Taxable goods from unregistered suppliers	95,000

The following further information is available:

- (i) Supply of taxable goods to registered customers include Rs. 200,000 supplied to an associated company at a special discount of 25%. Normal discount is 10%.
- (ii) Taxable goods to un-registered customers include goods worth Rs. 200,000 sold to cottage industry in Bela. The rest of the goods were sold to educational institutions in Zhob.
- (iii) A credit note for Rs. 100,000 was issued by JA to a customer on reduction of sale price. The goods were sold in November 2016.
- (iv) Taxable goods purchased from registered suppliers include:
 - o a new electronic cash register purchased for Rs. 200,000 which was commissioned into operation during February 2017.
 - o office equipment of Rs. 50,000, purchased for the warehouse and an air-conditioner of Rs. 30,000 for new office.
 - o an amount of Rs. 30,000 paid for purchase of raw material. However, only 30% of the goods were supplied during February 2017 for which sales tax invoice has been issued by the supplier.
 - o Wires and cables of Rs. 50,000 and electrical and sanitary fittings of Rs. 90,000. These items were used in the renovation of a factory building.
- (v) Exports include supply of taxable goods of Rs.20,000 to a retailer in Export Processing Zone.
- (vi) Exempt supplies include distribution of free samples of exempt goods among the vendors. Value of such goods amounted to Rs. 10,000.
- (vii) A machine costing Rs. 50,000 is imported for use in exempt sale.
- (viii) Sales tax credit brought forward from January 2017 amounted to Rs. 245,000. This amount was inclusive of input tax of Rs. 120,000 paid on a chemical which could not be used before the expiry date and was consequently destroyed in February 2017.

Rate of sales tax is 17%. All figures are exclusive of sales tax.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to JA and the amount of sales tax to be carried forward, if any, for the tax period February 2017.

Note: Show all relevant exemptions, exclusions and disallowances.

Question-6

JF Associates (JFA) is registered under the Sales Tax Act, 1990 as a manufacturer. Following information has been provided by JFA for the month of August 2020:

	Rupees
Supplies	
Taxable goods to registered persons	7,500,000
Taxable goods to unregistered persons	1,300,000
Exempt goods to unregistered persons	1,000,000
Exports to Saudi Arabia	500,000
Purchases	
Taxable goods from registered persons	7,400,000
Taxable goods from unregistered persons	1,100,000

Additional information:

- Supplies of taxable goods to registered persons include sale to Ghalib Corporation of goods worth Rs. 225,000. The contract for sale has been signed but neither invoice was issued nor any delivery and payment was made in August 2020.
- Supplies of taxable goods to unregistered persons include sales of Rs. 40,000 to end consumers.
- Own manufactured equipment worth Rs. 375,000 was used for internal testing purposes in R&D department.
- JF issued a debit note of Rs. 35,000 to Hali Brothers to rectify a mistake in JF's sales invoice. The invoice was originally raised in January 2020.
- Goods pledged with a bank were sold by the bank in an auction for Rs. 800,000. The normal selling price of these goods was Rs. 1,000,000.
- The auditors have proposed to make a provision of 50% against obsolete and expired stock of Rs. 350,000. The goods are lying in warehouse since July 2017. Input tax relating to this stock was claimed in July 2017.
- On 25 August 2020 JF issued discount coupons worth Rs. 150,000 to its customers for participating in grand annual sales exhibition to be held in December 2020.
- An early settlement discount of Rs. 120,000 was given to local distributors.
- Free replacement of defective parts costing Rs. 400,000 relating to goods which were sold under 1-year warranty. The market value of such parts was Rs. 550,000.
- Two machines A and B costing Rs. 1,500,000 and Rs. 1,000,000 respectively were acquired and commissioned into operation in August 2020. Machine A has been used for the manufacture of taxable (local) as well as exempt supplies whereas Machine B has been used only for manufacture of export supplies.
- In June 2020 JF inadvertently charged sales tax of Rs. 58,000 instead of 85,000 on supply of chemicals to one of its registered customers. So far, JF has not obtained permission from the Commissioner Inland Revenue for revision of return.
- Sales tax credit brought forward from previous month amounted to Rs. 425,000.

Except where otherwise specified, all figures are exclusive of sales tax. Rate of sales tax is 17%.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to JFA and input tax to be carried forward, if any, for tax period August 2020. (18)

**THEORY QUESTIONS ON SALES
TAX BY ICAP**

24

CHAPTER 24

THEORY QUESTIONS ON SALES TAX BY ICAP

ICAP PAST PAPER QUESTIONS

Question-1

Explain the term "time of supply" with reference to the Sales Tax Act 1990.

Question-2

Mr. Omar has recently registered himself under the Sales Tax Act, 1990. He has written a letter enquiring the following in the light of the Sales Tax Act, 1990:

- Whether taxable supplies can be sold at discounted price
 - Whether sales tax is payable on discounted price or normal price
 - Whether discounts can be given at varying rates
- Please draft a suitable reply.

(3)
(Q. 11 March 2002)

Question-3

Explain the incidence of sales tax, if any, for exporters.

(10)
(Q.12 March 2002)

Question-4

- a) What is the significance of Third Schedule to the Sales Tax Act, 1990. (3)
- b) Define 'retail price' in the context of Third Schedule to the Sales Tax Act, 1990. (2)
- c) Whether trade discount allowed on products covered under the Third Schedule will affect sales tax levied on such products. Give reasons in support of your answer. (3)

(7)
(Q. 13 March 2002)

Question-5

The finance manager of ABC Ltd requests for an advice on 'Tax Invoice', please draft a suitable reply in the light of Sales Tax Act, 1990.

(8)
(Q. 12 September 2002)

Question-6

Elaborate the term 'input tax' as defined in the Sales Tax Act, 1990

(5)
(Q.11 September 2002)

Question-7

- a) Distinguish between the concept of 'zero-rating' and 'exemption' under the Sales Tax, 1990. (5)
- b) What are the minimum information required to be given on sales tax invoice. (5)

(Q.11 March 2003)

Question-8

Explain the term "Manufacture" as used in the Sales Tax Act, 1990.

(3)
(Q.10 March 2003)

Question-9

Define the following terms in the light of Sales Tax Act, 1990.

- a) Manufacture or produce. (3)
- b) Supply. (3)
- c) Taxable activity. (3)

(Q.10 September 2003)

Question-10

List down the records that are required to be maintained by a person registered under the Sales Tax Act, 1990 and for what period the records are to be maintained?

(4)
(Q.12 September 2003)

Question-11

Briefly explain the uses of debit and credit notes under the Sales Tax Act, 1990

(2)
(Q.11 March 2004)

Question-12

Define the following in the light of Sales Tax Act, 1990:

- Due Date
- Retail price

(2)
(Q.9 March 2004)

Chapter 24: Theory Questions on Sales Tax by ICAP

Question-13

Discuss the treatment provided under the Sales Tax Act, 1990 in respect of any 'excess tax' collected from the customer. (3)
(Q.9 September 2004)

Question-14

Describe the category of goods on which sales tax is chargeable at Zero rate. (3)
(Q.13 September 2004)

Question-15

(a) Discuss the salient features of a tax invoice? (5)
(b) Who is permitted to issue a tax invoice? (2)
(c) State the period for which a person is required to maintain records for the purpose of sales tax. (2)
(Q. 14 September 2004)

Question-16

Define the following with reference to the Sales Tax Act, 1990? (4)
(a) Input-tax (4)
(b) Manufacture (Q. 11 September 2004)

Question-17

Define the following with reference to the Sales Tax Act, 1990:- (3)
(a) Associated person (5)
(b) Manufacturer or producer (2)
(c) Taxable supply. (Q. 9 March 2005)

Question-18

What impact would a change in rate of Sales-tax have in case of: (1)
(a) Supply of goods. (4)
(b) Import of goods. (Q. 10 March 2005)

Question-19

What are the precondition of claiming input tax against output tax by a registered person? (3)
(Q. 11 March 2005)

Question-20

State under what circumstances the sales tax authorities are empowered to black list a registered person? (2)
(Q. 12 March 2005)

Question-21

Define 'value of supply' under the Sales Tax Act, 1990 for the following situations: (3)
(a) Consideration for a taxable supply is partly in kind and partly in money. (2)
(b) Trade discounts. (Q. 13 March 2005)

Question-22

Who is required to file a final return under the Sales Tax Act, 1990? When is it required to be filed? (2)
(Q. 14 March 2005)

Question-23

(a) Identify the persons required to be registered under the Sales Tax. (3)
(b) Under what circumstances is a registered person liable to be de-registered? Also explain the procedure for de-registration. (7)
(c) Explain the provisions relating to blacklisting and suspension of registration. (6)
(Q. 11 September 2005)

Question-24

In the monthly sales tax return filed under the Sales Tax Act, 1990 input tax paid for the month is adjusted against output tax payable. You are requested to comment on the following issues relating to input / output adjustment: (3)
(a) Can input tax paid in prior periods be claimed in a monthly tax return. (2)
(b) What would happen, if input tax paid exceeds output tax payable for the month. (3)
(c) What recourse is available if output tax for the month is inadvertently disclosed at a lesser amount. (Q.10 September 2005)

Chapter 24: Theory Questions on Sales Tax by ICAP

Question-25

List down the exports which are outside the purview of zero rating under section 4 of the Sales Tax Act, 1990. (3)
(Q.9 March 2006)

Question-26

Explain the provisions of section 26 of Sales Tax Act, 1990 with regard to the following:

- a) Voluntary revision of return (4)
- b) Revision of return during audit or after issuance of a show cause notice by the department. (4)

(Q.10 March 2006)

Question-27

Deleted

Question-28

With reference to Sales Tax Rules relating to the apportionment of input tax, explain the following:

- (a) Residual input tax (3)
- (b) Manner or computation of residual input tax credit on taxable supplies (3)
- (c) Concepts of provisional and final adjustment (3)

Question-29

(Q. 12 March 2006)

- (a) Where goods supplied are returned, the supplier is required to issue credit note. The buyer responds by issuing a debit note. You are required to specify the particulars to be mentioned on the debit note issued by the buyer. (6)
- (b) Describe the circumstances under which a registered person shall not be able to claim or deduct input tax? (6)

Question-30

(Q.7 September 2006)

- (a) What is the difference between zero-rated and exempt supplies? (4)
- (b) A registered person is required to maintain certain records under the Sales Tax Act, 1990. You are required to:
 - (i) explain the provisions relating to maintenance of records.
 - (ii) list down the records that are required to be maintained
 - (iii) specify the minimum period for which the records are required to be retained. (10)

Question-31

(Q.8 September 2006)

- (a) There shall be charged, levied and paid a tax known as sales tax at a specified rate on value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him; and goods imported into Pakistan. Explain the term "taxable supply" and "taxable activity" used in the above statement describing the scope of sales tax. (8)
- (b) List down the persons who are required to be registered under the Sales Tax Rules, 2006. (5)

(Q.7 March 2007)

Question-32

- (a) Every registered person making a taxable supply is required to issue a tax invoice at the time of supply of goods. List down the particulars which are required to be contained in a sales tax invoice. (4)
- (b) What are the circumstances in which a person registered under the Sales Tax Act, 1990 may apply for cancellation of his registration? (3)

(Q.8 September 2007)

Question-33

- (a) How would the input tax on raw material be determined and claimed where a registered person is engaged in making taxable as well as exempt supplies? (6)
- (b) A contract has been signed on May 20, 2006 by Mr. Pervez and Mr. Farooq. Both of them are registered persons. Under the contract, Mr. Pervez will supply branded computers to Mr. Farooq within two months. At the time of entering into contract, the goods were exempt from sales tax. Before delivery, the Government withdrew this exemption with effect from July 1, 2006. 25% advance was paid on signing of contract and balance on the delivery of goods on July 15, 2006. Advise Mr. Pervez on the chargeability of sales tax. (3)

(Q.7 September 2007)

Question-34

- a) A registered person making a taxable supply has to issue a tax invoice at the time of supply of goods. What are the particulars that are required to be mentioned on the invoice? (3)
- b) Sales Tax Act, 1990 places certain restrictions on adjustment of input tax. You are required to explain the related provisions in respect of the following:
- Extent of restriction on admissibility of input tax;
 - The conditions under which the amount of input tax which had been so restricted may subsequently be allowed;
 - Treatment of sales tax paid on acquisition of fixed assets. (6)

(Q. 7 March 2008)

Question-35

Explain the concept of 'Value of Supply' under the Sales Tax Act, 1990. (8)

(Q. 7(a) September 2008)

Question-36

- a) Mr. Kazim has recently started a business and has been registered under the Sales Tax Act, 1990. You are required to explain to him the provisions of Sales Tax Act, 1990 relating to maintenance and retention of records. (10)
- b) Certain food items supplied by Pakistan Distributors (Pvt.) Ltd. (PDL) have been returned by the customers after the expiry date. PDL wishes to destroy them. Specify the procedure which would have to be followed in this regard. (4)

(Q. 6 September 2008)

Question-37

Under the Sales Tax Rules, 2006 the FBR has prescribed certain rules for filing the electronic return. You are required to briefly explain these rules. (6)

(Q. 7 (b) September 2008)

Question-38

- (a) Discuss the provisions of the Sales Tax Act, 1990 with regards to the following:
- Filing of return.
 - Voluntary revision of return.
 - Revision of return during or after issuance of a notice of audit.
- (b) With reference to the Sales Tax Act, 1990, identify the situations under which registered person shall not be entitled to claim or deduct input tax. (8)

(Q. 7 March 2009)

Question-39

- (a) Identify the situations under which a person registered under the Sales Tax Act, 1990 is liable to be de-registered. (4)
- (b) Briefly explain the procedure for de-registration as specified by the Sales Tax Rules, 2006. (3)
- (c) Comment whether the following persons are required to be registered under the Sales Tax Act, 1990:
- Mr. Yahya is a wholesaler and his annual business turnover is Rs.4.9 million.
 - Mr. Ishaq is planning to import raw materials for business use. The annual imports are estimated at Rs.3 million.
 - Mr. Pervaz is a commercial exporter. All his business purchases are either exempt supplies or from unregistered suppliers.
 - Mr. Farooq is a distributor of consumer goods and his annual turnover is Rs.15 million.
 - Mr. Rafiq is a manufacturer of candles. His turnover in last twelve tax periods was below Rs. 10 million. (6)

(Q. 7 September 2009)

Question-40

Where for any valid reasons the value of supply or the amount of sales tax mentioned in the sales tax invoice issued has changed, the supplier shall issue Debit Note or a Credit Note.

Required: Discuss the rules relating to adjustment of input and output tax on issuance of Debit or Credit Note, as specified in the Sales Tax Rules. (6)

(Q.8 (a) September 2009)

Question-41

a) State the provisions of Sales Tax Act, 1990 relating to maintenance and retention of records by a registered person making taxable supplies (9)

b) List the type of exports which are outside the purview of zero rating. (3)

(Q.7 March 2010)

Question-42

(a) State the situations when a registered person shall not be entitled to claim or deduct input tax under the Sales Tax Act, 1990. (6)

(b) Mr. Rizwan, a sales tax registered person, is carrying on business in the name of Rizwan Enterprises. On February 15, 2010, he sold certain goods to his customer against which he intends to issue a credit note in the month of September 2010.

Required:

Explain whether Mr. Rizwan can issue the credit note in the month of September 2010, under the Sales Tax Rules, 2006. (4)

(c) Explain the provisions of Sales Tax Act, 1990 with regard to the following:

(i) Change in rate of tax during a tax period (4)

(ii) Excess tax collected from the customer (3)

(Q.7 September 2010)

Question-43

(a) Samad Corporation (SC) supplies specialized material to various industrial concerns. The company has entered into following transactions during the month of February 2011.

(i) Supply of material costing Rs. 3 million to AB Limited (ABL). It has been agreed that ABL would settle the transaction by paying Rs. 1.5 million in cash and the balance amount by way of allowing SC to use ABL's import quota. The market price of the supply is Rs. 3.5 million.

(ii) Supply of material to DM Limited (DML) at a discounted price of Rs. 6.8 million. Due to particular relationship, DML has been allowed a special discount of 15% as against the normal business practice of 8%.

(iii) Supply of 20 tons of material, falling under third schedule, to BML at a wholesale price of Rs. 138,000 per ton. The retail price of the material is Rs. 150,000 per ton.

Required:

In each of the above situation, advise the management about the value of supply on which sales tax would be levied under the provisions of Sales Tax Act, 1990 (7)

(b) List down the particulars to be mentioned on the debit note issued by the supplier in the event of change in the value of supply, under the Sales Tax Rules, 2006. (4)

(Q.2 March 2011)

Question-44

(a) Under what circumstances, a registered person becomes liable to be de-registered under the Sales Tax Act, 1990. Also state the procedures for deregistration as enumerated in the Sales Tax Rules, 2006. (7)

(b) Mr. Gohar has recently been registered under the Sales Tax Act, 1990. He is engaged in the export and distribution of consumer products. Before filing the first return, he wishes to obtain advice on the following matters:

(i) Eligibility for a refund if input tax paid is in excess of the output tax payable for the month.

(ii) Consequences of non-payment of the entire amount of tax due as indicated in the return.

(iii) Concept of provisional and final adjustment.

Required:

Comment on each of the above matters.

(8)
(Q. 7(a), (b) September 2011)

Question-45

Ms. Zamarrud is engaged in the manufacture and sale of taxable as well as zero-rated products.

Required:

As a tax consultant, advise Ms. Zamarrud on the following matters:

- The conditions that need to be satisfied for the adjustment of input tax against the output tax liability. (5)
- Any seven situations in which input tax is not allowed to be adjusted against the output tax liability. (7)
- The remedy available to her if she fails to adjust input tax in the period in which it is paid. (2)

(Q.8 March 2012)

Question-46

- Identify the goods that shall be charged at the rate of zero per cent under the Sales Tax Act, 1990. (3)
- List the situations in which the type of goods identified in (a) above would not be eligible for zero rating. (3)

(Q.7 September 2012)

Question-47

- Under the provisions of Sales Tax Act, 1990 and Rules made thereunder, identify the last date for filing of sales tax return in each of the following cases:

- On 1 August 2012, Sara registered herself under the Sales Tax Act, 1990.

- Fatima filed the return for the month of July 2012 on 10 August 2012. She wants to revise her return to correct certain errors.

- Amna Engineering Limited (AEL) is registered under the Sales Tax Act, 1990. AEL wants to file annual sales tax return for the financial year ended 30 June 2012. (3)

- Abida wants to deregister herself with effect from 30 September 2012.

- While carrying out the sales tax audit of Haleema, the Officer of Inland Revenue identified a deficiency in the amount of sales tax deposited by her. She acknowledged this deficiency but failed to deposit the balance amount. A show cause notice was issued to her for the payment of the balance amount. Determine Haleema's liability in the above situation. Also explain whether it would have been to her advantage if she had paid the amount before issuance of the show cause notice. (3)

(Q.8 September 2012)

Question-48

Identify the persons who are considered as manufacturers under the Sales Tax Act, 1990.

(6)
(Q.7 (a) March 2013)

Question-49

Under the Sales Tax Rules, 2006:

- Identify the situations in which a registered person is liable to be deregistered. (4)
- State the steps involved in case of de-registration of a person on his own initiative. (3)

(Q. 8 March 2013)

Question-50

- State the provisions of Sales Tax Act, 1990 relating to maintenance and retention of records by a registered person making taxable supplies. (9)

- Discuss the rules relating to filing of electronic return under the Sales Tax Rules, 2006. (3)

(Q. 8 September 2013)

Question-51

Under the provisions of Sales Tax Act, 1990:

- Identify the situations under which a debit or credit note may be issued by a registered person. (3)
- Discuss the conditions under which a registered person may file a revised return. (3)

(Q. 10 March 2014)

Question-52

Under the Sales Tax Act 1990, 'Taxable activity' means any economic activity carried on by a person whether or not for profit. You are required to specify the activities that are specifically included and excluded from the above definition. (6)

(Q. 11 March 2014)

Question-53

- (a) Under the Sales Tax Act, 1990 and Rules made thereunder:
- List the persons who are required to be registered. (5)
 - Change in rate of tax during a tax period (3)
- (b) There are certain food items in the inventory of XY Limited (XYL) which were returned by the customers after the expiry date. Specify the procedure which must be followed under the Sales Tax Rules, 2006 if XYL wishes to destroy these items. (4)

Question-54

Saleem is registered under the Sales Tax Act, 1990 and is engaged in the business of export and distribution of electronic appliances. (Q. 5 September 2014)

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, advise Saleem on the following matters:

- any six situations in which input tax is not allowed to be adjusted against the output tax liability. (6)
- exports which are outside the purview of zero rating. (3)
- eligibility for a refund if input tax is paid in excess of the output tax payable for the month. (2)
- concept of provisional and final adjustment in relation to 'Apportionment of input tax'. (2)

Question -55

- (a) Under the provisions of the Sales Tax Act, 1990 explain the following: (Q.8 March 2015)
- Input tax in relation to a registered person (3)
 - Supply (4)
- (b) Baber Associates, who is registered with the Inland Revenue Department for sales tax purposes, has supplied a heavy duty motor to Mubarak Enterprises on one month's credit. However, due to sharp decline in petroleum prices, the price of the motor has reduced by 10% in the local market. Upon request from Mubarak Enterprises, Baber Associates has finally agreed to reduce the price of motor by 8%. In view of the Sales Tax Rules, 2006 describe the procedure which may be followed by both the parties to give effect to the above price change. (3)

Question -56

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, briefly describe the following:

- How and under what circumstances the Inland Revenue Department may recover the amount of sales tax from a person without issuing him a show cause notice. (4)
- Rule relating to change in the particulars of registration other than the change of business category. (5)

Question-57

- Under the Sales Tax Act, 1990 and Rules made thereunder, briefly describe the concept of 'Residual input tax'. How it differs from 'Residual input tax credit'? (3)
- Under the provisions of the Sales Tax Act, 1990 enumerate any four features distinguishing the concept of 'Zero rating' from 'Exempt supply'. (4)
- Identify the records which a registered person making taxable/exempt supplies is required to maintain at his business premises or registered office under the Sales Tax Act, 1990. (4)

(Note: details of contents not required)

(Q.6. September 2016)

Question-58

- Under the provisions of Sales Tax Act, 1990 and Rules made thereunder, identify the circumstances in which:
 - a registered person is not allowed to reclaim or deduct input tax paid. (6)
 - a registered person may be liable for deregistration. (3)
- On 2 June 2016, Abid Limited inadvertently issued a tax invoice with an incidence of sales tax amounting to Rs. 25,000 as against the applicable tax of Rs. 45,000. The error was detected on 15 February 2017 i.e. after expiry of 180 days. Advise Abid Limited in the light of Sales Tax Rules, 2006. (4)

(Q.8. March 2017)

Question-59

Mr. D is running a shoe showroom and does not pay sales tax through electricity bill. He has made sale of shoes of Service Industries worth Rs. 7,500,000. During the year, Mr. D also purchased leather from the market and get it manufactured from the small shoe makers. The sale proceeds from the said produced goods were Rs. 5,500,000.

Required:

State whether the above person is required to be registered under the sales tax laws. If yes, then in which category (manufacturer, retailer, etc.) and in which scheme of taxation (registration, services etc.)

Question-60

Mr. Furqan intended to commence a manufacturing business and obtained the sales tax registration in November 2015. Due to unavoidable circumstances, he could not start his business as stipulated. No sales tax returns were filed since he did not carry on any taxable activity. In April 2016, he received a notice from the department of Inland Revenue directing him to furnish the return of November by May 15, 2016.

Required:

Advise Mr. Furqan whether he is required to file the sales tax return.

Question-61

Folad Limited (FL) has supplied 50 tons of Iron Bars to Tameer Limited (TL). The market price of the supply is Rs. 2.5 million exclusive of sales tax. Owing to financial difficulties, TL has requested to settle the price by transferring a piece of land having a market value of Rs. 2.3 million and to pay Rs. 75,000 in final settlement along with the applicable sales tax by way of a cheque drawn in favour of FL.

Required

- Comment on the chargeability of sales tax in the above situation.
- Under the provisions of Sales Tax Rules, 2006 narrate the procedure to be followed by Tameer Limited, in the above situation, if it decides to return 20 tons of Iron Bars to Folad Limited due to sub-standard quality. Assume that both FL and TL are registered taxpayers.

Question-62

Zubair has recently been registered under the Sales Tax Act, 1990. You are required to advise him on the following matters:

- Type of exports which are outside the purview of zero rating. (03)
- Eligibility for a refund if input tax is paid in excess of output tax payable for the month. (03)
- The conditions required to be fulfilled for filing a revised return. (02)
- Concept of provisional and final adjustment in relation to 'Apportionment of input tax'. (02)
- How to deal with change in rate of tax during a tax period. (04)

(Q.7 September 2017)

Question-63

Under the provisions of the Sales Tax Act, 1990:

- List the exceptions to the following general rule:
 - Where the taxable supplies are made to a person who has not obtained registration number, there shall be charged, levied and paid a further tax at the rate of 3% of the value in addition to the normal rate of 17%. (03)
 - Goods exported shall be charged to tax at the rate of zero percent. (03)
- Explain the term 'Temporary registration'. Briefly discuss the rights, obligations and responsibilities of a person who has obtained temporary registration. (06)

(Q.6 March 2018)

Question-64

Under the Sales Tax Act, 1990 and Rules made thereunder, briefly describe:

- temporary sales tax registration and rights, obligations and responsibilities of a person holding temporary registration. (05)
- differences between rules applicable to exempt and zero rated supplies. (04)
- the provisions related to excess/additional amount of sales tax collected by a registered person. (03)

- (b) Where a Commissioner of Inland Revenue, having jurisdiction, is satisfied that a registered person has issued fake invoices, evaded tax or committed tax fraud, he may suspend the registration of such person without prior notice, pending further inquiry.

Under the Sales Tax Act, 1990 and Rules made thereunder, state any **four** basis of such satisfaction which allow the Commissioner to suspend the registration as described above.

(03)

(Q.6 September 2018)

Question-65

Under the provisions of Sales Tax Act, 1990 and Rules made thereunder, identify the circumstances in which a registered person may be liable for deregistration.

(03)

(Q.6 March 2019)

Question-66

- (a) Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, briefly describe the treatment of change in rate of tax during a tax period.

(04)

- (b) There are certain goods returned by the customer as they are unfit for consumption and the seller has no option but to destroy them.

Specify the procedure which must be followed by a registered person under the Sales Tax Rules, 2006 for the destruction of such goods.

(02)

- (c) Who is required to file the following sales tax returns? Also mention the due date of filing of these returns.

(i) Monthly return

(ii) Special return

(iii) Final return

(iv) Annual return

(04)

(Q.6 September 2019)

Question-67

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, discuss the following:

- (i) Difference between zero rated supplies and exempt supplies.

(04)

- (ii) How and under what circumstances the Inland Revenue Department may recover the amount of sales tax from a person without issuing him a show cause notice.

(04)

- (iii) Concept of provisional and final adjustments in relation to 'Apportionment of input tax'.

(02)

(Q.7 (b) March 2020)

Question-68

Sun Associates (SA) has recently been registered with the Inland Revenue Department under the Sales Tax Act, 1990.

Required:

Under the Sales Tax Act, 1990 and Rules made thereunder,

- (a) Identify the documents which SA may require for claiming/adjusting the input tax relating to the following activities:

(i) supply of taxable goods (01)

(ii) import of goods into Pakistan (02)

(iii) goods purchased in an auction (02)

- (b) State the requirements relating to retention of records and documents that SA should comply with. (02)

(Q.5 Sep. 2020)

Question-69

Rapid Associates (RA) has been registered under the Sales Tax Act, 1990 since 2014. During the month of June 2020, RA issued fake sales tax invoices amounting to Rs. 5 million to one of its customers. Apart from this, RA has always been in compliance with all the regulations of the Sales Tax Act, 1990.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, discuss the consequences which RA may have to face due to issuance of fake invoices. (06)

(Q.6 Sep. 2020)

Question-70

- (a) Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, briefly explain the following:
- (i) How and under what situations the Inland Revenue Department may recover the amount of sales tax from a person without issuing him a show cause notice. (04)
 - (ii) Extra tax and capacity tax. (05)
- (b) On 4 February 2021, it was revealed to Fahad that he inadvertently reported an output sales tax of Rs 27,000 in a tax invoice, issued on 5 July 2020, to a customer instead of Rs. 72,000 in his sales tax return for July 2020.

Required:

In the light of the Sales Tax Act, 1990 and Rules made thereunder, advise how Fahad can rectify this error after the expiry of 180 days. (03)

(Q.7 March 2021)

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Answer 1
Refer definitions

Answer 2
March 08, 2002

Dear Omar

Yes taxable supplies can be sold at discounted price. Provided that tax invoice shows the discounted price and the related tax.

The sales tax will be payable on discounted price excluding the amount of tax.

No, the discount allowed should be in conformity with the normal business practices.

If you need any further details please feel free to contact

Regards
XYZ

Answer 3

The goods exported by exporters shall be charged to tax at the rate of 0%. [Section 4]

If the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of:

- zero rated local supplies or
- export

the excess amount of input tax shall be refunded to the registered person within 45 days of filing of refund claim. [Section 10]

For claiming of refund, only such person shall be treated as manufacturer-cum-exporter who has his own manufacturing facility. [Section 2 Definitions]

Answer 4

- a) In respect of supplies specified in Third Schedule tax shall be charged at the rate of 17% of the retail price.
- b) 'retail price', with reference to the 3rd Schedule, means the price fixed by the manufacturer or importer, in case of imported goods, including all duties and taxes (other than sales tax) at which a brand of an article should be sold to general public.

Where more than one price is fixed for the same brand, highest price will be taken as retail price.

- b) No this will not affect the tax levied because as per the provisions of law supplies specified in Third Schedule tax shall be charged at the rate of 17% of the retail price.

Answer 5

Section 23 in letter form.

Answer 6

Refer definitions

Answer 7

- a) A zero-rated supply is chargeable to tax at the rate of 0% however exempt supply is not chargeable to tax at all.
Input tax paid on raw material used in making zero-rated supplies is refundable while Input tax paid on raw material used in making exempt supply is not refundable.
- b) S. 23(1)

Answer 8

Refer definitions

Answer 9

Refer definitions

Answer 10

S. 23(1) and S. 24

Answer 11

Following are the uses of debit and credit note:

- Where a registered person has made a supply, and such supply or part thereof is cancelled or returned, the buyer shall issue a Debit Note
- If the supply is being returned/ cancelled by an unregistered person (buyer), the supplier (seller) shall issue a credit note
- Where for any valid reason the value of supply or the amount of sales tax mentioned in the invoice issued has increased, the supplier (seller) shall issue a Debit Note
- Where, for any valid reason the value of supply or the amount of sales tax mentioned in the invoice issued has decreased, the supplier (seller) shall issue a Credit Note

Answer 12

Refer definitions

Answer 13

S. 3B

Answer 14

The following goods shall be charged to tax at the rate of zero per cent:--

- goods exported, or the goods specified in the Fifth Schedule;
- supply of stores and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan
- such other goods, as the Federal Government may specify by notification in the official Gazette, whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations and implementation of bilateral and multilateral agreements

Answer 15

- Write down sub-section (1) of section 23 briefly.
- Only a registered person is permitted to issue a tax invoice. No person other than a registered person shall issue an invoice
- S. 24

Answer 16

Refer definitions

Answer 17

Refer definitions

Answer 18

Section 5

Answer 19

A registered person shall not be entitled to deduct input unless:

Situation	Document required
In case of purchases made by him	He holds a <u>tax invoice</u> in his name and having his registration number in respect of such supply or in case of supply of electricity or gas, a bill bearing his registration number and the address where the connection is installed; If the supplier has not declared such supply in his return or he has not paid amount of tax due as indicated in his return than input cannot be recorded.

Chapter 24: Theory Questions on Sales Tax by ICAP

In case of imports made by him	He holds <u>bill of entry or goods declaration</u> in his name and showing his sales tax registration number. It should be duly cleared by the Custom authorities.
In case of goods purchased in auction	He holds a <u>treasury challan</u> , in his name and bearing his registration number, showing payment of sales tax.

Answer 20

Rule 12 (1), (2)

Answer 21

Refer definitions

Answer 22

A person applying for de-registration shall before de-registration furnish a final return to the Commissioner. The manner and time for filing of return will be directed by the Commissioner. [Sec. 28]

Answer 23

a) Rule 4

b) Circumstances

Following persons may be liable for de-registration:

- who ceases to carry on his business or
- whose supplies become exempt from tax, or
- who transfers or sells his business
- who merges with another person
- who ceases to remain registered
- who fails to file return for 6 consecutive months

Procedure

The person shall apply to the Commissioner for cancellation of registration. The Commissioner, on receiving application or on his own initiative may issue order of de-registration or cancellation of registration, with in the later of following:

- 90 days from the date of application or
- the date all outstanding liabilities are deposited by him.

After this such person will be de-registered through computerized system.

The Commissioner, upon completion of any audit proceedings or inquiry which is initiated because of application of de-registration, shall complete the proceedings or inquiry within 90 days of date of application and direct the applicant to discharge any outstanding liability by filing a final return (u/s 28):

A person applying shall not be de-registered unless he provides record for the purpose of audit or inquiry. The liabilities before de-registration, shall not be affected because of cancellation/cessation of registration.

Answer 24

a) Where a registered person did not deduct input tax within the relevant period, he may claim such tax in the return for any of the six succeeding tax periods.

b) A registered person, other than public limited companies listed on Pakistan Stock Exchange, shall not be allowed to adjust input in a tax period exceeding 90% of the output tax.

If the excess input tax relates to supplies other than zero-rated or exports, such excess input tax may be carried forward to the next tax period, and shall be treated as input tax for that period and the Board may, prescribe the procedure for refund of such excess input tax.

c) In this case he should file a revise return. A registered person may, subject to approval of the Commissioner Inland Revenue, file a revised return within 120 days of the filing of return to correct any omission or wrong declaration made therein.

Approval shall not be required in case revised return is filed within 60 days of filing of return if:

- the tax payable in revised return is more or
- the refund claimed in revised return is less

than the return required to be revised.

Answer 25

Following goods exported shall not be charged to tax at the rate of zero per cent:

- (i) Goods exported that are intended to be re-imported into Pakistan; or
- (ii) goods that have been entered for export but are not exported; or
- (iii) goods that have been exported to a country specified by the Federal Government:

Answer 26

- a) A registered person may, subject to approval of the Commissioner Inland Revenue, file a revised return within 120 days of the filing of return, to correct any omission or wrong declaration made therein. Approval shall not be required in case revised return is filed within 60 days of filing of return if:

- the tax payable in revised return is more or
- the refund claimed in revised return is less

than the return required to be revised.

- b) When filing a revised return the following amounts are required to be paid depending upon the time the revised return is furnished.

Time of furnishing revised return	Amount required to be paid
During audit and before receipt of show cause notice	Amount of tax pointed out by officer of Inland Revenue + default surcharge +25 % of penalty
After issuance of show cause notice	Amount of tax evaded + default surcharge +100 % penalty [If this amount is paid the show cause notice shall stand abated]

Answer 27

Deleted

Answer-28

- a) Rules Definitions
- b) Sub-rule (3) of Rule 25
- c) Sub-rule (4) of Rule 25

Answer 29

- a) The buyer shall issue a Debit Note (in duplicate), indicating:
- the quantity being returned or cancelled,
 - its value determined on the basis of the value of supply shown in the tax invoice issued by the supplier (seller),
 - the amount of related sales tax paid thereon, and
 - the following, namely:--
 - (i) name and National Tax Number of the recipient (buyer);
 - (ii) name and National Tax Number of the supplier(seller);
 - (iii) number and date of the original sales tax invoice;
 - (iv) the reason of issuance of the Debit Note; and
 - (v) signature and seal of the authorized person issuing the note.
- b) Same as Answer 42(a)

Answer 30

- a) A zero-rated supply is chargeable to tax at the rate of 0% however exempt supply is not chargeable to tax at all. Input tax paid on raw material used in making zero-rated supplies is refundable while Input tax paid on raw material used in making exempt supply is not refundable.
- b) i) A registered person making taxable supplies shall maintain and keep at his:
- business premises or
 - registered office
- in English or Urdu language the records of:

- goods purchased and imported and
 - supplies made (including zero-rated and exempt supplies)
- by him or by his agent in such form that his tax liability can be readily ascertained.
- ii) Following records are required to be kept:
- (a) records of supplies made shall indicate the description, quantity and value of goods, name and address of the person to whom supplies were made and the amount of the tax charged;
 - (b) records of goods purchased shall show the description, quantity and value of goods, name, address and registration number of the supplier and the amount of the tax on purchases;
 - (c) records of goods imported shall show the description, quantity and value of goods and the amount of tax paid on imports;
 - (d) records of zero-rated and exempt supplies;
 - (da) double entry sales tax accounts;
 - (e) invoices, credit notes, debit notes, bank statements, banking instruments, inventory records, utility bills, salary and labour bills, cash book, rental agreements, sale purchase agreements and lease agreements;
 - (ea) record relating to gate passes, inward or outward, and transport receipts;
 - (eb) electronic version of records mentioned in clause (a) to (ea); and
 - (f) such other records as may be specified by the Board.
- iii) A person, who is required to maintain any record or documents, shall retain these for a period of 6 years after the end of the tax period to which they relate.

Answer 31

- a) Refer definitions
- b) Rule 4

Answer 32

- a) S. 23(1)
- b) Following persons may be liable for de-registration:
 - who ceases to carry on his business or
 - whose supplies become exempt from tax, or
 - who transfers or sells his business
 - who merges with another person
 - who ceases to remain registered
 - who fails to file return for 6 consecutive months.

Answer 33

- a) Rule 25 (3),(4),(5)
- b) As per provisions of law, in case of exempt supply, tax shall be charged in the period in which exemption is withdrawn. Therefore full amount of supply shall be charged to tax in the month of July.

Answer 34

- a) S. 23(1)
- b)
 - (i) A registered person, other than public limited companies listed on Pakistan Stock Exchange, shall not be allowed to adjust input in a tax period exceeding 90% of the output tax. The Board may, by notification in the official Gazette, exclude any person or class of persons from the purview of above provision.
 - (ii) A registered person, may be allowed adjustment or refund of input tax not allowed due to restricting the admissibility of input tax upto 90% of output tax.
For claiming the adjustment/refund the person should fulfill following conditions:-

	Person	Condition applicable
(i)	If the registered person's account are subject to audit under Companies Act, 2017	The person should furnish a statement along with annual audited accounts, duly certified by the auditors

(ii)	In case of other persons	The person should fulfill the conditions and restrictions as may be specified by the Board
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The adjustment/refund of input tax, shall be made on yearly basis in the second month following the end of the financial year of the registered person.

- (iii) Tax charged on the acquisition of fixed assets shall be fully adjustable against the output tax in the month it is purchased.

Answer 35

Refer definitions

Answer 36

- a) S. 22(1) and S. 24
b) Rule 23

Answer 37

Rule 18

Answer 38

a)

- (i) Rule 14 and 18

- (ii) A registered person may, subject to approval of the Commissioner Inland Revenue, file a revised return within 120 days of the filing of return, to correct any omission or wrong declaration made therein.

Approval shall not be required in case revised return is filed within 60 days of filing of return if:

- the tax payable in revised return is more or
- the refund claimed in revised return is less than the return required to be revised.

Examiner comments on part -ii

Overall performance of the candidates was good as they were able to demonstrate their understanding of Section 26 (3) of STA-1990. However, some candidates missed two important points i.e. that the revised return can only be filed with the prior approval of Commissioner and within 120 days of filing of original return.

- (iii) When filing a revised return the following amounts are required to be paid depending upon the time the revised return is furnished:

Time of furnishing revised return	Amount required to be paid
<u>During audit</u> and before receipt of show cause notice	Amount of tax pointed out by officer of Inland Revenue + default surcharge +25 % of penalty
<u>After issuance of show cause notice</u>	Amount of tax evaded + default surcharge +100 % penalty [If this amount is paid the show cause notice shall stand abated]

- b) Same as Answer 42(a)

Answer 39

a)

Following persons may be liable for de-registration:

- a) who ceases to carry on his business or
- b) whose supplies become exempt from tax, or
- c) who transfers or sells his business
- d) who merges with another person
- e) who ceases to remain registered
- f) who fails to file return for 6 consecutive months

- b) The person shall apply to the Commissioner for cancellation of registration. The Commissioner, on receiving application or on his own initiative may issue order of de-registration or cancellation of registration, with in the later of following:
- 90 days from the date of application or
 - the date all outstanding liabilities are deposited by him.

After this such person will be de-registered through computerized system.

The Commissioner, upon completion of any audit proceedings or inquiry which is initiated because of application of de-registration, shall complete the proceedings or inquiry within 90 days of date of application and direct the applicant to discharge any outstanding liability by filing a final return (u/s 28):

A person applying shall not be de-registered unless he provides record for the purpose of audit or inquiry.

The liabilities before de-registration, shall not be affected because of cancellation/cessation of registration.

c)

Sr. No.	Registration required	Reasons
(i)	Yes	All wholesalers must register irrespective of their total turnover.
(ii)	Yes	All importers must register irrespective of their total turnover.
(iii)	No	Since he has no input tax to claim, he will not opt for registration.
(iv)	Yes	All distributors must register irrespective of their total turnover.
(v)	No	A manufacturer being a cottage industry is not required to be registered if its annual turnover is or below Rs. 10 million and it fulfills the other conditions as well.

Answer 40

Rule 22

Answer 41

- a) S. 22(1) and S. 24
- b) Following exports are outside the purview of zero rating:
- Goods exported which are intended to be re-imported into Pakistan.
 - Goods that have been entered for export but are not exported.
 - Goods that have been exported to a country specified by the Federal Government

Answer-42

(a)

A registered person shall not be entitled to claim or deduct input tax paid on:

- goods or services used or to be used for any purpose other than for taxable supplies made or to be made by him; OR goods or services used or to be used for making the exempt goods supplies.
- any other goods or services specified by the Federal Government;
- the goods which are subject to extra tax in addition to normal tax payable at 17%.
- fake invoices.
- purchases, in respect of which a discrepancy is indicated by CREST or input tax of which is not verifiable in the supply chain;
- taxable goods or services which has not been deposited into government treasury by the supplier.
- purchases made by a registered person, who fails to furnish the information required by the Board through a notification.
- purchases where payment has not been made through crossed cheque.
- goods and services not related to the taxable supplies made by the registered persons
- goods and services acquired for personal or non-business consumption
- goods used in immovable property, or permanently attached to immovable property, such as building and construction materials, paints, electrical, pipes, wires and cables, but excluding pre-fabricated buildings and good acquired for sales or re-sale or for direct use in the production of taxable goods;
- vehicles specified in Customs Act, parts of such vehicles, electrical and gas appliances, furniture,

- office equipment (excluding electronic cash registers), but excluding goods acquired for sale/re-sale.
- (xiii) services in respect of which input tax adjustment is barred under the provincial sales tax law;
 - (xiv) import or purchase of agricultural machinery or equipment subject to sales tax at the rate of 7%;
 - (xv) such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return or he has not paid the tax due as indicated in his return
 - (xvi) supplies used for specified goods if such good are supplied to unregistered person.
 - (xvii) the input on goods or services relating to supplies made to un-registered person, on pro-rata basis, for which sale invoices do not bear the NIC number or NTN, of the recipient.

(b) A credit note can be issued within 180 days of the date of relevant supply. As the supply was made on February 15, 2010, the 180 days expired on August 14, 2010. Therefore the credit note cannot be issued in the month of September 2010.

However, the Commissioner, at the request of Rizwan Enterprise, extends the period for the submission of the credit note. The Commissioner has been empowered to extend the period of 180 days by a further 180 days at the request of the supplier in writing giving reason for the desired extension in time.

- (c) (i)
- If there is a change in the rate of tax:
 - a taxable supply made by a registered person shall be charged to tax at such rate as in force at the time of supply.
 - Imported goods shall be charged to tax at such rate as is in force -
 - ✓ in case the goods are entered for home consumption, on the date on which a goods declaration is presented.
 - ✓ in case the goods are cleared from warehouse, on the date on which a goods declaration for clearance of such goods is presented.
 - Where a [goods declaration] is presented in advance of the arrival of the conveyance by which the goods are imported, the tax shall be charged as is in force on the date on which the manifest of the conveyance is delivered.
 - If the tax is not paid within seven days of the presenting of the goods declaration the tax shall be charged at the rate as is in force on the date on which tax is actually paid.

If there is a change in the rate of tax during a tax period, a separate return has to be furnished in respect of each portion of the tax period showing the application of different rates.

(c) (ii) S. 3B

Answer-43

- a)
- i) In case the consideration for a supply is partly in kind and partly in money, the value of the supply shall mean the open market price of the supply excluding the amount of tax ;
Therefore, in this case sales tax would be payable on the market price of Rs. 3.5 million.
 - ii) In case of trade discounts, sales tax would be levied on the discounted price excluding the amount of tax; provided the tax invoice shows the discounted price and the related tax and the discount allowed is in conformity with the normal business practices;
In this case the discounted price to be shown on the sales tax invoice would be the one computed at 8% discount. Therefore, value of supply would be Rs. 7.36 million (Rs. 6.8m/0.85 x 0.92).
 - iii) On items specified in the Third Schedule, sales tax is charged on the retail price of goods excluding the amount of retail tax .

Therefore, in this case sales tax would be levied on Rs. 3.0 million (Rs. 150,000 x 20 tons)

b) If a debit note is issued on account of change (increase) in the value of supply mentioned on the invoice, it shall contain the following particulars:

- (i) name and National Tax Number of the supplier (seller);
- (ii) name and National Tax Number of the recipient (buyer);
- (iii) number and date of the original sales tax invoice;
- (iv) the original value and sales tax as in original invoice;

- (v) the revised value and sales tax;
- (vi) the difference of value and sales tax adjustable;
- (vii) the reason for revision of value; and
- (viii) signature and seal of the authorized person issuing the note.

Answer-44

a) Same as Answer-23 (b)

- b) i) If the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of:
- o zero rated local supplies or
 - o export
- made, the excess amount of input tax shall be refunded to the registered person within 45 days of filing of refund claim.

If the excess input tax relates to supplies other than zero-rated or exports, such excess input tax may be carried forward to the next tax period, and shall be treated as input tax for that period and the person will be allowed an adjustment or refund of input tax not allowed due to restricting the admissibility of input tax upto 90% of output tax.

For claiming the adjustment/refund the person should fulfill following conditions:-

	Person	Condition applicable
(i)	If the registered person's account are subject to audit under Companies Act, 2017	The person should furnish a statement along with annual audited accounts, duly certified by the auditors
(ii)	In case of other persons	The person should fulfill the conditions and restrictions as may be specified by the Board

The adjustment/refund of input tax, shall be made on yearly basis in the second month following the end of the financial year of the registered person.

- ii) Where a registered person pays the amount of tax less than the tax indicated in his return, the short paid amount of tax along with default surcharge shall be recovered from such person by stopping removal of any goods from his business premises and through attachment of his business bank accounts, without giving him a show cause notice.
- However no penalty shall be imposed unless a show cause notice is given to such person.
- iii) Sub-rule 4 of rule 25

Answer-45

- a) S. 7(2)
- b) S. 8(1),(2)
- c) Where a registered person did not deduct input tax within the relevant period, she may claim such tax in the return for any of the six succeeding tax periods. So she can claim it till next six succeeding tax periods.

Answer-46

(a) The following goods shall be charged to tax at the rate of zero per cent:-

- (i) goods exported, or the goods specified in the Fifth Schedule;
- (ii) supply of stores and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan
- (iii) such other goods, as the Federal Government may specify by notification in the official Gazette, whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations and implementation of bilateral and multilateral agreements

(b) Following goods shall not be charged to tax at the rate of zero per cent:

- (i) exports that are intended to be re-imported into Pakistan; or
- (ii) goods that have been entered for export but are not exported; or
- (iii) goods that have been exported to a country specified by the Federal Government

Answer-47

- (a)
- (i) September 18, 2012
 - (ii) December 08, 2012
 - (iii) September 30, 2012
 - (iv) It will be filed at such date as directed by the Commissioner
- (b) After issuance of show cause notice, Haleema shall pay amount of tax evaded plus default surcharge plus 100% penalty. If this amount is paid the show cause notice shall stand abated.
If Haleema had paid the tax before issuance of show cause notice then she would have been paid 25% of penalty along with the amount of tax evaded and default surcharge.

Answer-48

S. 2(17)

Answer-49

Same as Answer 39 (a), (b)

Answer-50

- a) Same as Answer-36 (a), Chapter 25
- b) Same as Answer-37, Chapter 25

Answer-51

- a) Following are the situations under which a debit or credit note may be issued by a registered person:
- 1) Where a registered person has made a supply and such supply or part thereof is cancelled or returned
 - 2) Where for any valid reason the value of supply or the amount of sales tax mentioned in the invoice issued has increased.
 - 3) Where, for any valid reason the value of supply or the amount of sales tax mentioned in the invoice issued has decreased.
- c) A registered person may, subject to approval of the Commissioner, file a revised return within 120 days of the filing of return, to correct any omission or wrong declaration.
Approval shall not be required in case revised return is filed within 60 days of filing of return if:
- the tax payable in revised return is more or
 - the refund claimed in revised return is less
- than the return required to be revised.

Answer-52

“taxable activity”, means any economic activity carried on by a person whether or not for profit, and includes—

- (a) an activity carried on in the form of a business, trade or manufacture;
 - (b) an activity that involves the supply of goods, the providing of services, or both;
 - (c) a one-off adventure in the nature of a trade; and
 - (d) anything done during the commencement or termination of the economic activity,
- but does not include—

- (a) the activities of an employee providing services to an employer;
- (b) an activity carried on as a private recreational hobby;

Answer-53

a)

i) The following persons engaged in making of taxable supplies in Pakistan (including zero-rated supplies) are required to be registered:--

- (a) a manufacturer except a cottage industry;
- (b) A retailer who is required to pay sales tax except such retailer required to pay sales tax through his electricity bill.;
- (c) an importer;
- (d) a wholesaler (including dealer) and distributor;
- (e) a person required, under any other Federal or Provincial law, to be registered for the purpose of any tax collected as if it were a levy of sales tax; and
- (f) a commercial exporter who intends to obtain sales tax refund for his zero-rated supplies.

ii)

If there is a change in the rate of tax-

(a) a taxable supply made by a registered person is chargeable at the rate applicable at the time of supply;

(b) imported goods shall be chargeable at following rates-

	Scenario	Rate to be used
i)	If the goods are entered for home consumption	The rate applicable on the date on which a goods declaration is presented
ii)	If the goods are cleared from warehouse	The rate applicable on the date on which a goods declaration for clearance of such goods is presented

Where goods declaration is presented in advance of the arrival of conveyance, the tax shall be calculated at the rate applicable on the date on which the manifest of the conveyance is delivered:

In case of clearance of goods from warehouse if the tax is not paid within 7 days of the presenting of the goods declaration, the tax shall be charged at the rate applicable on the date on which tax is actually paid.

b)

Where goods are returned by the buyer because these are unfit for consumption and are required to be destroyed by the supplier (seller), the XYZ shall destroy the goods after obtaining permission from the Commissioner. The goods will be destroyed under the supervision of an Inland Revenue Officer not below the rank of an Assistant Commissioner. The input tax credit in respect of goods destroyed shall not be admissible.

Answer-54

a) Same as Answer-42 (a)

b) Following goods shall not be charged to tax at the rate of zero per cent:

- (i) exports that are intended to be re-imported into Pakistan; or
 - (ii) goods that have been entered for export but are not exported; or
 - (iii) goods that have been exported to a country specified by the Federal Government:
- The Federal Government may restrict input tax credit for person making a zero-rated supply.

c) Refund of input Tax

A registered person, other than public limited companies listed on Pakistan Stock Exchange, shall not be allowed to adjust input in a tax period exceeding 90% of the output tax.

Excess input tax shall be carried forward to the next tax period, and shall be treated as input tax for that period. The adjustment/refund of input tax, shall be made on yearly basis in the second month following the end of the financial year of the registered person.

If the input tax paid by a registered person on purchases exceeds the output tax because of:

- zero rated local supplies or
- exports

the excess input shall be refunded within 45 days of filing of refund claim. The Board may direct that refund shall be paid with duty drawback.

- d) Monthly adjustment of input tax shall be treated as provisional adjustment and at the end of financial year, the registered person shall make final adjustment on basis of taxable and exempt supplies made during the year.

Answer-55

(a)

(i) Input tax in relation to a registered person means:

- (i) tax levied on supply of goods received by the person;
- (ii) tax levied on goods imported by the person;
- (iii) tax levied under Federal Excise Act in sales tax mode on goods/services acquired by the person,
- (iv) Provincial sales tax levied on services rendered or provided to the person and
- (v) tax levied under the Sales Tax Act, 1990 as adapted in the State of Azad Jammu and Kashmir, on the supply of goods received by the person;

(ii) "supply" means a sale or transfer of the right to dispose of goods as owner, including sale under a hire purchase agreement, and also includes -

(a) putting to:

- private,
- business or
- non-business

use of goods produced during taxable activity;

- (b) auction or disposal of goods to satisfy a debt; and
- (c) possession of taxable goods held immediately before de-registration.
- (d) in case of manufacture of goods belonging to another person, the transfer or delivery of such goods to the owner or to a person nominated by him.

The Board with the approval of Federal Minister in-charge may specify other transactions as supply.

(b) Where, for any valid reason the value of supply mentioned in the invoice issued has decreased, Babar Associates shall issue a Credit Note (in duplicate), with prescribed particulars.

The original copy, shall be sent to the Mubarak Enterprise and the duplicate shall be retained for record.

Mubarak Enterprise shall issue a Debit Note in response to Credit Note issued by the Babar Associates as an acknowledgment of the receipt. Same details will be provided in the Debit note.

Answer-56

(a) As per S.11A of Sales Tax Act 1990, where a registered person pays tax less than indicated in his return, the short paid tax (including default surcharge) shall be recovered from him:

by stopping removal of goods from business premises and

- through attachment of business bank accounts
- without giving him a show cause notice.

However penalty will be imposed after issuing show cause notice.

(b) As per Rule 7 of Sales Tax Rules 2006,

- (1) In case of change in the name, address or other particulars in registration certificate, the person shall notify it in computerized system in 14 days of change.
- (2) If change is approved, computerized system will issue revised registration certificate. The effective date shall be the date the person applied for change.
- (3) The Commissioner may based on available information, after inquiry and after providing opportunity of hearing make modifications in the registration of the person.

Answer-57

(a)

"residual input tax" is the tax paid on raw materials, components and capital goods used for making taxable as well as exempt supplies. It does not include the input on raw materials used wholly for making taxable or exempt supplies;

"Residual input tax credit"

Chapter 24: Theory Questions on Sales Tax by ICAP

The input tax for both exempt and taxable supplies shall be apportioned according to following formula:

$$\frac{\text{Residual Input Tax Credit on taxable supplies}}{\text{Value of taxable supplies} \times \text{Residual Input Tax}} = \frac{\text{Value of taxable supplies} \times \text{Residual Input Tax}}{(\text{Value of taxable} + \text{exempt supplies})}$$

(b) Difference between zero rated and exempt supply

Description	Zero Rated Supply	Exempt Supply
Definition	It is a supply which is charged to tax at the rate of zero per cent	It is a supply which is exempt from tax
Input tax credit	Input tax paid is refundable.	Input tax paid is inadmissible.
Products Covered	Goods exported or notified by FBR or mentioned in the Fifth Schedule	Goods mentioned in Sixth Schedule. Notified by Federal Government and FBR
Registration	Required to be registered	No requirement of registration
Invoicing Requirements	Invoice shall be raised but at zero per cent	No invoice shall be raised.

(c) Records.-

(1) A registered person making taxable supplies shall maintain following records of goods (including zero rated and exempt supplies):

- records of supplies made
- records of goods purchased
- records of goods imported
- records of zero-rated and exempt supplies;
- double entry sales tax accounts;
- invoices, credit notes, debit notes, bank statements, banking instruments, inventory records, utility bills, salary and labour bills, cash book, rental agreements, sale purchase agreements and lease agreements;
- record relating to gate passes, inward or outward, and transport receipts; and
- electronic version of records mentioned in clause (a) to (ea); and
- such other records as may be specified by the Board.

(2A) The Board may specify for any person to use electronic fiscal cash registers approved by the Board.

Answer-58

- Same as Answer 42 (a)
 - Same as Answer 39 (a)
- As per the provisions of law where for any valid reason the amount of sales tax mentioned in invoice issued has increased, the supplier (seller) shall issue a Debit Note (in duplicate). [Rule 21 (1)]
Further where output is reduced or input is increased, the adjustment can only be made if the Debit Note is issued within 180 days of the relevant supply. [Rule 22 (3)]
In the given circumstance as the output will increase by Rs. 20,000 so the adjustment can be made on 15 February 2017 even after 180 days.

Answer-59

Person Name	Category of Registration	Scheme of Taxation
Mr. D	Manufacturers and Retailer	Registration required

Answer-60

Being a registered person, Mr. Furqan was required to file a nil /null return for each tax period irrespective of the fact that he did not carry out any taxable activity after the registration. Failure of Mr. Furqan to file a return by the due date may result in imposition of penalty.

Answer-61

(a) In case the consideration for a supply is in kind, or is partly in kind and partly in money, the value of the supply shall mean the open market price of the supply excluding the amount of tax. Therefore, value of supply shall be Rs. 2,500,000 and not the consideration received i.e. Rs.2,375,000.

(b) Return of supply

Tameer Limited (TL) would follow the following procedure:

(i) TL shall issue a Debit Note (in duplicate) in respect of Iron Bars supplied to it by Folad Limited (FL), indicating the quantity being returned, its value determined on the basis of the value of Iron Bars as shown in the tax invoice issued by FL and the amount of related sales tax paid thereon, as well as the following, namely:-

- name and registration number of the recipient i.e. TL;
- name and registration number of the supplier i.e. FL
- number and date of the original sales tax invoice;
- the reason of issuance of the debit Note; and
- signature and seal of the authorized person issuing the note.

(ii) The original copy of the debit note shall be sent to FL and the duplicate copy shall be retained by TL for record. [Rule 20 (1) and (2)]

Answer-62

- a) Same as Answer 54 (b)
- b) Same as Answer 54 (c)
- c) Same as Answer 51 (b)
- d) Same as Answer 54 (d)
- e) Same as Answer 42 (c (i))

Answer-63

- (a) (i) An SRO provides following list of persons on which further tax is not chargeable:
- (i) Electricity energy supplied to domestic and agricultural consumers.
 - (ii) Natural gas supplied to domestic consumers.
 - (iii) Motor oil, diesel oil, jet fuel and fuel oil.
 - (iv) Goods sold by the retailers to end customers.
 - (v) Supply of goods directly to end customers including food, beverages, fertilizers and vehicles.
 - (vi) Items listed in Third Schedule
 - (vii) Second hand worn clothing and other worn articles falling under PCT heading 6309.0000.
 - (viii) Fertilizers
 - (ix) Supplies by steel melters, re-rollers and ship breakers operating under Chapter XI of Sales Tax Special Procedure Rules, 2007.
 - (x) Supplies covered under the Fifth Schedule to the Sales Tax Act, 1990.
 - (xi) Supplies made to Government, semi-government and statutory regulatory bodies.
 - (xii) Supply of white crystalline sugar.
- (ii) Following goods shall not be charged to tax at the rate of zero per cent:
- (i) exports that are intended to be re-imported into Pakistan; or
 - (ii) goods that have been entered for export but are not exported; or
 - (iii) goods that have been exported to a country specified by the Federal Government

(c) Refer Rule 5A.

Answer-64

- a) i. Refer rule 5A
- ii. Refer past paper question 30 (a).
- iii. Refer past paper question 42 (c) (ii).

- b) Where Commissioner is satisfied that a registered person has issued fake invoices, evaded tax or committed tax fraud, registration may be suspended through the system, without prior notice, pending further inquiry. The basis may include:-
- non-availability of the registered person at the given address;
 - refusal to allow access to business premises or refusal to furnish records to Inland Revenue Officer;
 - abnormal tax profile, such as taking excessive input tax adjustments, continuous carryforwards, or sudden increase in turnover;
 - making substantial purchases/supplies from/to other blacklisted or suspended person;
 - non-filing of sales tax returns;
 - on recommendation of a commissioner of any other jurisdiction;
 - any other reason to be specified by the Commissioner;

Answer-65

Every registered person may apply to commissioner for de-registration in following circumstances:

- who ceases to carry on his business or
- whose supplies become exempt from tax, or
- he transfers or sells his business; or
- merges with another person

If a registered person fails to file tax return for 6 consecutive months, the Commissioner may after issuing a notice shall issue order of de-registration and he will be de-registered through computerized system.

Answer-66

- Refer S. 5.
- Refer rule 23.
-

	Nature of return	Filer	Due date
(i)	Monthly return [S.26]	Registered person	15 th of next month following any tax period (Electronic filing – 18 th of next month)
(ii)	Special return [S.27]	Registered or Unregistered persons	On the date specified by the Commissioner in its notice calling for such return.
(iii)	Final return [S.28]	Person who has applied for deregistration	On the date specified by the Commissioner.
(iv)	Annual return [R 17]	Every private or public limited company	30 th of September following the end of financial year.

Answer-67

- Same as Answer-57(b)
- Same as Answer-56(a)
- Same as Answer-54(d)

Answer-68

- Following documents are required for claiming input:

Situation	Documents required
A taxable supply of goods	He holds a <u>tax invoice</u> in his name and having his registration number in respect of such supply
Goods imported into Pakistan	He holds <u>bill of entry or goods declaration</u> in his name and showing his sales tax registration number. It should be duly cleared by the Custom authorities.
Goods purchased in an auction	He holds a <u>treasury challan</u> , in his name and bearing his registration number, showing payment of sales tax.

- (b) A person shall retain records/documents for a period of 6 years after the end of the tax period to which they relate or till final decision is received in proceedings for assessment, appeal and Alternative Dispute Resolution Committee.

Answer-69

- (i) Where Commissioner is satisfied that a registered person has issued fake invoices, evaded tax or committed tax fraud, registration may be suspended through the system, without prior notice, pending further inquiry.
- (ii) the written order of suspension shall give the reasons for suspension. Order shall be sent to the registered person, all other LTUs/RTOs, the FBR's computer system for information;
- (iii) in cases, where the buyers/suppliers of suspended person, belongs to another LTU/ RTO, and they are to be suspended as well, the Commissioner shall inform Chief Commissioner to initiate proceedings for suspension/blacklisting of them;
- (iv) no input tax refund shall be admissible to suspended person. Similarly, no input tax refund shall be allowed to the buyers on sales invoices issued by him (whether issued prior to or after such suspension), during suspension.
- (v) the Commissioner shall, within 7 days of order of suspension, issue a show cause notice to the registered person to afford an opportunity of hearing within 15 days of the issuance of notice clearly indicating that he will be blacklisted if:
- there is no response to the notice;
 - he has not provided the required record;
 - he has not allowed access to his business record or premises; and
 - any other reason specified by the Commissioner;

Answer-70

- (a) (i) Same as Question 67(ii)

(ii) Capacity tax

For goods specified in Tenth Schedule tax shall be levied -

- on the production capacity of plant, machinery
- on fixed basis from any person.

Extra tax

Federal Government may collect tax at such extra rate or amount, in addition to the normal tax. The tax charged here shall not exceed 17% of value of goods. The Federal Government will also specify the mode, manner and time of payment of tax.

- (b) As per the provisions of law where for any valid reason the amount of sales tax mentioned in invoice issued has increased, the supplier (seller) shall issue a Debit Note (in duplicate). [Rule 21 (1)] Further where output is reduced or input is increased, the adjustment can only be made if the Debit Note is issued within 180 days of the relevant supply. [Rule 22 (3)] In the given circumstance as the output will increase by Rs. 45,000 so the adjustment can be made even after 180 days. For this Fahad needs to issue a Debit note.

OTHER QUESTIONS

Answer the following in the light of Sales Tax Act?

1. Mr. Aamir is in the business of manufacturing weapons. For this he has supplied some leather sheets (exempt goods) to a company for further processing. How value of supply will be determined in this case?	S.2 (46) (viii)
2. Mr. Asim has sold some of the goods to his cousin at a price which is lower than market price. What thing he should keep in mind while executing this transaction.	S.2 (46) (ii)
3. Who is liable to pay the Sales Tax?	S. 3(3)
4. Mr. Ali while selling some goods has forgotten to use a high rate of tax while charging output to customer. Now what is his responsibility?	S. 3B (1),(2)
5. At what time tax should be charged in respect of imported goods?	S. 6(1)
6. How the tax liability is calculated in respect of a person who is involved in making supplies taxable at 17%?	S. 7(1)
7. A person is making sales taxable at 17%. What is the procedure prescribed under law for availing refund of input tax paid in excess of output for this person.	S. 8B (2),(3)
8. What powers are available to tax authorities where a person required to furnish a return has not furnished the same?	S.11(1)
9. For how many previous years a return can be required from a person?	S.11(4)
10. For how many period tax records are required to be kept by a taxpayer?	S. 24
11. How tax authorities can conduct audit?	S. 25(1) ,(2), (3)
12. Which matters are to be taken into consideration by tax authorities when they are removing a sample of goods and what is the right available to the taxpayer in this respect?	S. 25A
13. When a separate return is required to be filed by a person?	S. 26 (2)
14. What is the option available to the taxpayer if he has filed an incorrect return and how this option is to be exercised?	S. 26 (3)
15. What is the difference between special return and final return?	S. 27, S. 28
16. What is the difference between requirement of registration in respect of a wholesaler and retailer?	R. 4
17. To whom and in what form application of registration is to be made?	R. 5(1)
18. What are the obligations of a person who is registered compulsorily?	R. 6 (4)
19. On which ground a person can be de-listed?	R. 12 (2)
20. What is the requirement of filing of return if a person is simultaneously registered under Sales Tax Act and Federal Excise Act?	R. 14 (2)
21. A registered person has sold certain goods and in the subsequent period the value of supply has increased, now what is his responsibility?	R. 21(1)
22. A registered person has sold certain goods and in the subsequent period the value of supply has decreased, now what is his responsibility and the responsibility of buyer?	R. 21(2),(3)
23. What is the concept of provisional adjustment?	R. 25(4)
24. Is electronic filing of sales tax return binding on all?	Yes R. 18 (1)
25. What is a nil return?	R. 2 (xxxv)
26. What is the difference between goods specified in 3 rd , 5 th and 6 th Schedule?	
27. Which person is not considered as cottage industry?	S. 2 (5AB)
28. What is the time of supply in respect of goods supplied under hire purchase agreement?	S. 2 (44)

**NUMERICAL QUESTIONS ON
SALES TAX BY ICAP**

25

CHAPTER 25
NUMERICAL QUESTIONS ON SALES TAX BY ICAP
ICAP PAST PAPER QUESTIONS

Exam tips for sales tax numerical

1. You must search in question that purchase and sale figures are inclusive of tax or exclusive of tax. If question is silent assume all of the figures are exclusive.
2. Sales tax debit is output and sales tax credit is input.
3. Name of schedules in sales tax
 - Third schedule – Tax will be charged at retail price
 - Fifth schedule – Zero rate sales
 - Sixth schedule – Exempt sale
4. You must find out whether in the adjustment the word “include” is written or not.
 - a. If word include is not used post original figure
 - b. If word include is used post rectifying figure
5. Input workings:
 - a. Always calculate input on machine (and electronic cash register) separately.
 - b. The input on local raw material, imported raw material and purchase of services is to be calculated in separate working.
6. A machine is purchased in January and we started use in March. We will claim input in January.
7. Following adjustments are to be ignored in numerical:
 - a. Material purchased from un-registered suppliers was exclusively used for making taxable supplies.
 - b. Purchase of motor vehicle
8. Following will be considered as sale:
 - a. Goods given to employee/CEO/Director free of cost
 - b. Goods personally used by owner
 - c. Our goods lying as security with bank but bank sold them on making default
 - d. Goods issued from factory to admin office
 - e. Goods produced and internally used in factory
 - f. Goods given in charity
9. For claiming input tax you must hold invoice.
10. If exempt sale is exported, it will be considered as export.
11. Debit credit note:
 - a. Sale return adjustment cannot be made after 180 days.
 - b. Increase in sale price adjustment can be made after 180 days
 - c. Decrease in sale price adjustment cannot be made after 180 days.
 - d. Purchase return adjustment can be made after 180 days.
12. Exempt goods sold to an unregistered person will be considered as exempt sales.
13. Following adjustments in sales tax numerical if given are to be ignored:
 - a. Company issued discount coupons worth Rs. 450,000 to its customers for participating in grand annual sales exhibition
 - b. The auditors have proposed a provision against obsolete and expired stock of Rs.285,000 which is lying in warehouse since long.
 - c. Goods purchased from unregistered persons were exclusively used for making taxable supplies.

Chapter 25: Numerical Questions on Sales Tax by ICAP

14. Following terms are commonly used for inputs which are not restricted up to 90% of output.
- a) Input paid on machine;
 - b) Input paid on electronic cash register; and
 - c) Input on capital goods.
15. If special trade discount is given in question, then normal discounted price should be considered as value of supply and if normal discount rate is not given then fair value will be used.
16. Settlement discount is same as cash discount and it has no tax implication in numerical on sales tax. Only trade discount is considered if it is according to business norms.

Question-1

Star Enterprises has submitted the following data for the month of June:

	Rs.
Total sales- registered persons (taxable)	1,000,000
Total sales - unregistered persons (taxable)	5,000,000
Export sales	2,500,000
Exempt supplies	500,000
Gross purchases from registered suppliers	6,500,000
Gross purchases from unregistered suppliers	500,000
Purchase return to registered suppliers	650,000

Required: Compute the sales tax liability of Star Enterprises for the month. Show proper workings. (10)

(Q.9 March 2003)

Question-2

Following information is extracted from the records of M/S Rainbow Enterprises (Private) Ltd. The information pertains to the month of July 2005:

	Rs.
• Supplies to registered persons (taxable)	5,000,000
• Supplies to unregistered persons (taxable)	1,500,000
• Export Supplies	3,000,000
• Purchases from registered suppliers	4,000,000
• Purchases from unregistered suppliers	1,000,000
• Sales of exempt goods	1,000,000

- Examination of creditors' ledger reveals that an amount of Rs. 100,000 is still outstanding on account of the purchase made from a registered supplier on January 12, 2005. The input tax on the said purchases was accounted for in the relevant tax period.
- Goods purchased from unregistered suppliers are exclusively used for making taxable supplies.

Required: Determine the amount of sales tax liability.

(6)

(Q.12 September 2005)

Question-3

Mr. Adam is a registered person and engaged in the supply of various types of appliances for last many years. He has provided you the following information for the month of February 2007:

- (i) Supplies made during the month amount to Rs.95 million. Details of supplies made are as follow:

	Rs. In million
Exports	50
Exempt supplies	10
Supplies to registered persons (taxable)	30
Supplies to unregistered persons (taxable)	5
	<u>95</u>

- (ii) During the month, he has made an adjustment of Rs.500,000 through credit note in a registered person's balance.

- (iii) Following purchases were made during the month:

	Rs. In million
- From registered persons	45
- From unregistered persons	15
	<u>60</u>

- (iv) All goods purchased from unregistered persons are exclusively used for making taxable supplies.
- (v) An amount of Rs. 3,000,000 is payable to a registered person since December 20, 2006. The input tax on the purchases was accounted for in the relevant tax period.
- (vi) Mr. Adam is also required to pay the following

Arrears
Surcharge
Penalty

Required: Compute Mr. Adam's sales tax liability

Rs.
500,000
70,000
30,000
(13)
(Q.8 March 2007)

Question-4

Mr. Azad is a registered person and engaged in the manufacture of consumable goods. The following information for the month of February 2009 is available:

	Value excluding sales tax Rs.	Sales tax @ 17% Rs.	Value including sale tax Rs.
Sales	6,000,000	1,020,000	7,020,000
- Taxable	4,000,000	--	4,000,000
- Exempt	10,000,000	1,020,000	11,020,000
Purchases	9,200,000	1,564,000	10,764,000
- Raw materials	1,700,000	289,000	1,989,000
- Machinery	10,900,000	1,853,000	12,753,000

Required: Work out the sales tax liability of Mr. Azad along with input tax to be carried forward (if any) in his sales tax return. (9)
(Q.8 March 2009)

Question-5

Mr. Asif is registered under the Sales Tax Act, 1990. Following information for the month of August 2009 has been extracted from his business records:

- (i) Supplies made during the month were as follows:
- | | Rupees |
|---------------------------|------------|
| - to registered persons | 5,000,000 |
| - to unregistered persons | 3,000,000 |
| - export supplies | 11,000,000 |
| - exempt supplies | 2,000,000 |
- (ii) Goods costing Rs. 8,000,000 were purchased from registered persons.
(iii) Goods purchased from unregistered persons amounted to Rs. 2,000,000 and were used exclusively for making taxable supplies.

Required:
Compute the sales tax payable and/or to be carried forward by Mr. Asif in the return for the month of August 2009. (9)
(Q.8 September 2009)

Question-6

Maroof Engineering Limited (MEL) is registered under the Sales Tax Act, 1990. The company is engaged in the manufacture and supply of spare parts. Following information has been extracted from the records of MEL for the month of February 2011.

	Rupees
Purchases:	
Local Material:	
from registered suppliers	15,000,000
from un-registered suppliers	8,000,000
Supplies:	
Manufactured goods:	
local taxable supplies to registered persons	10,000,000
local taxable supplies to un-registered persons	3,000,000
export to Taiwan	10,000,000
exempt goods	2,000,000

Following additional information is also available.

- (i) Purchases from registered suppliers include an amount of Rs. 1.0 million which was invoiced on May 15, 2010. The input tax on this invoice could not be claimed in the relevant period.
 - (ii) Material purchased from un-registered suppliers was exclusively used for making taxable supplies.
 - (iii) Goods worth Rs. 500,000 were returned by different customers. Proper debit/credit notes were raised within the specified period.
 - (iv) A new machinery of Rs 2.4 million was purchased and put to use during the same month.
 - (v) Rs. 20,000 was paid for electricity bill.
 - (vi) Parts worth Rs. 15,000 were delivered to the CEO for his personal use, free of cost.
 - (vii) Sales tax credit of Rs. 50,000 was brought forward from previous month.
- Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax.

Required:

- (a) Compute the sales tax payable/refundable.
- (b) Input tax credit to be carried forward, if any.

Question-7

(15)
(Q.5 March 2011)

Mr. Agha is registered under the Sales Tax Act, 1990. He is engaged in the supply of household appliances and has provided you the following information for the month of August 2011:

- (i) Supplies made during the month were as follows:

	Rupees
Local taxable supplies to registered persons	35,500,000
Local taxable supplies to unregistered persons	1,700,250
Exports to USA and Canada	25,500,000
Supplies of exempt goods	5,235,000

Goods worth Rs. 1,500,000 were returned by a registered person. Proper debit/credit notes have been issued in this regard.

- (ii) Following purchases were made during the month:

	Rupees
Purchases from registered persons	53,800,000
Purchases from unregistered persons	10,600,000

Goods purchased from unregistered persons were exclusively used for making taxable supplies. An amount of Rs. 750,000 is payable to a registered person since 28 January 2011.

- (iii) Sales tax credit of Rs. 610,000 has been brought forward from previous month.
- (iv) **Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax.**
- (v) Agha is also required to pay a penalty of Rs. 10,000 under the Sales Tax Act, 1990 on account of certain defects in the maintenance of records.

Required:

Compute the sales tax payable/ (refundable) by/to Mr. Agha along with input tax to be carried forward, if any, in the sales tax return for the month of August 2011.

(12)
(Q.6 September 2011)

Question-8

Mr. Folad is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and supply of home appliances. Following information has been extracted from the records of Mr. Folad for the month of February 2012.

	Rupees
Purchases – Local	
▪ From registered suppliers	70,250,000
▪ From un-registered suppliers	15,750,000
Supplies:	
▪ Local taxable supplies to registered persons	72,870,000
▪ Local taxable supplies to un-registered persons	9,850,000
▪ Exports to Canada and USA	12,700,000

- Following additional information is also available:
- A new machine purchased for Rs. 12 million was commissioned into operations during February 2012.
 - Sub-standard supplies amounting to Rs. 4,500,000 were returned to vendors. Proper debit/credit notes were raised in this regard.
 - Goods worth Rs. 7,200,000 were returned by different customers. Proper debit/credit notes were raised within the specified period.
 - An amount of Rs. 820,000 on account of purchases made from a registered supplier is outstanding since July 2011. The related input tax was accounted for in the relevant tax period.
 - Sales tax credit brought forward from previous month amounted to Rs. 910,500.

Sales tax is payable at the rate of 17%. All the above figures are exclusive of sales tax.

Required:

Compute sales tax payable/refundable and input tax credit to be carried forward, if any.

(12)

(Q.7 March 2012)

Question-9

Zainab is registered under the Sales Tax Act, 1990 and is engaged in the manufacture and supply of Products A and B. Following information has been extracted from her records for the month of August 2012:

	Product A	Product B
	-----Rupees-----	
Supplies		
Local supplies	5,350,000	1,010,000
Exports to Thailand	2,550,000	3,950,000
Purchases		
Local materials from registered persons	6,000,000	
Local materials from unregistered persons	850,000	

Additional information:

- Product A is exempt from the charge of sales tax.
- Sales tax credit brought forward from previous month amounted to Rs. 262,500.
- Substandard supplies worth Rs. 150,000 were returned to the registered vendors and proper debit and credit notes were issued.
- An invoice dated 5 February 2012 amounting to Rs. 100,000 had not been claimed inadvertently. This oversight was detected in the month of August 2012.
- Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax.

Required:

In the light of Sales Tax Act, 1990 and Rules made thereunder, calculate the following for the month of August 2012:

- Sales tax payable / refundable
- Input tax to be carried forward, if any.

(11)

(Q.9 September 2012)

Question-10

Mr. Clever, a manufacturer of household appliances, is registered under the Sales Tax Act, 1990. Following information has been extracted from his records for the month of February 2013:

Supplies	Rupees
Local supplies of manufactured goods to registered persons	
Local supplies of manufactured goods to unregistered persons	26,860,000
Local supplies of zero-rated goods	3,550,000
Exports to Malaysia	1,250,000
Local purchases	15,000,000
Registered persons	
Unregistered persons	40,550,000
	5,000,000

Following additional information is also available:

- Supplies worth Rs. 1,300,000 were returned by different registered persons. Proper debit/credit notes were raised within the specified time.
- Local purchases from registered persons include an invoice of Rs. 60,000 which was issued in the name of Mr. Clever's uncle.
- A new machine amounting to Rs. 3,000,000 was imported from China and put into operation during the same month.
- Sales tax credit of Rs. 410,000 was brought forward from previous month.

Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax.

Required:

Compute the sales tax payable by/refundable to Mr. Clever along with input tax to be carried forward, if any, in the sales tax return for the month of February 2013.

(12)

(Q.7 (b) March 2013)

Question-11

Faizan is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and supply of engineering goods. Following information has been extracted from his records for the month of August 2013.

- Supplies made during the month were as follows:

	Gross Amount	Discounts Allowed	Net amount
Local supplies to registered persons			
- Noori Limited	16,000,000	800,000	15,200,000
- Soori Limited	4,000,000	400,000	3,600,000
Local supplies to unregistered persons	4,200,000	210,000	3,990,000
Exports to Jordan	6,000,000		6,000,000

- Faizan normally allows 5% discount to all its customers. However, as a special case, a discount of 10% was allowed to Soori Limited. All the discounts were shown on the invoice.
- Supplies worth Rs. 617,500 (net of discount) were returned by Noori Limited. Proper debit and credit notes were issued in this regard.
- Following purchases were made during the month:

	Rupees
Local materials from registered persons	27,000,000
Local materials from unregistered persons	3,000,000

- Records indicate that a pump and a motor were given to Faizan's friend, free of cost. The list price of the pump and motor was Rs. 33,000.
- Faizan is required to pay a penalty of Rs. 10,000 under the Sales Tax Act, 1990 on account of certain defects in the maintenance of records.
- Sales tax credit brought forward from previous month amounted to Rs. 850,280.
- Sales tax is payable at the rate of 17%. All the above figures are exclusive of sales tax.

Required:

Compute the sales tax payable by or refundable to Faizan along with input tax to be carried forward, if any, in the sales tax return for the month of August 2013.

(13)

(Q.7 September 2013)

Question-12

Zaheer is registered under the Sales Tax Act, 1990. He is engaged in the manufacture and supply of spare parts. Following information has been extracted from the records for the month of February 2014.

	Rupees
Local purchases of raw-material:	
from registered suppliers	23,000,000
from un-registered suppliers	9,000,000
Supplies of manufactured goods:	
local taxable supplies to registered persons	12,000,000
local taxable supplies to un-registered persons	4,000,000
local exempt supplies to registered persons	3,000,000
exports to Malaysia	11,000,000

Following additional information is also available:

- Raw materials of Rs. 1.5 million were purchased from a registered supplier. Invoice was received on 15 November 2013. However, the input tax on this invoice could not be claimed in the relevant period.
- Taxable supplies amounting to Rs. 1.2 million were returned by different customers. Proper debit/credit notes were raised in respect of such supplies.
- Sales tax credit of Rs. 1.2 million was brought forward from previous month.

Sales tax is payable at the rate of 17%. All the above figures are exclusive of sales tax.

Required:

Compute the sales tax payable by or refundable to Zaheer along with input tax to be carried forward, if any, in the sales tax return for the month of February 2014.

(13)

(Q.9 March 2014)

Question-13

Ali Trading Company (ATC) is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and supply of consumer goods. Following information has been extracted from the records of ATC for the month of August 2014.

	Rupees
Supplies	
Local supplies to wholesalers	15,000,000
Local supplies to distributors	10,254,980
Exports	18,650,000
Local supplies to registered retailers	980,000
Supply of exempted goods	5,500,000
Purchases	
Local purchases from registered persons	50,982,000
Local purchases from un-registered persons	9,200,000

Following additional information is also available:

- Supplies amounting to Rs. 540,000 were returned by registered retailers.
- An early settlement discount of Rs. 250,000 was given to local distributors.
- An amount of Rs. 500,000 was received from Imran Associates, representing 25% advance payment in respect of supply of a special order. ATC will supply this order in November 2014.
- Goods pledged with a bank, were disposed of by the bank for Rs. 4 million in satisfaction of debt owed by ATC.
- Sales tax credit brought forward from previous month amounted to Rs. 854,700.
- Proper debit and credit notes have been issued wherever necessary.

Sales tax is payable at the rate of 17%. All the above figures are exclusive of sales tax.

Required:

Under the provisions of the Sales Tax Act, 1990 compute sales tax payable/refundable and input tax credit to be carried forward, if any, for August 2014.

(14)

(Q.6 September 2014)

Question-14

Bashir is registered under the Sales Tax Act, 1990 and is engaged in the business of export and supply of consumer goods. Following information has been extracted from his records for the month of February 2015.

Supplies	Rupees
To registered persons	
To unregistered persons	25,980,000
Exempt supplies	2,500,000
Export to USA	1,874,000
	2,000,000
Purchases	
Purchases from registered person	
Import of a machine	21,710,000
	2,500,000

Following additional information is also available:

- supplies to registered persons include goods amounting to Rs.300,000 which were supplied to an associated company at a special discount of 25%.
- input tax amounting to Rs.55,900 was paid in January, 2015 but inadvertently it could not be claimed in the return for January 2015.
- a registered supplier had supplied goods worth Rs.500,000 to Bashir in February 2015. However, Bashir did not receive the sales tax invoice from the supplier.
- the imported machine was put into operation during February, 2015.
- sales tax credit of Rs.410,000 is to be brought forward from January 2015.

Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax, wherever applicable.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute sales tax payable/refundable and input tax credit to be carried forward, if any, for tax period February 2015.

(13)

(Q.7 March 2015)

Question-15

Rahbar is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and supply of specialized equipment. Following information has been extracted from his records for the month of August 2015.

Supplies:	Rupees
to corporate customers – registered	
Exempt	20,000,000
	3,780,000
Purchases - Raw material:	
from cottage industry	550,000
from local registered persons	25,800,000

Following information is also available:

- Purchases from local registered persons include the following:
 - Material worth Rs. 1,600,000 against which a discrepancy has been indicated by the CREST.
 - Raw-material of Rs. 2,000,000 purchased from AB Enterprises on 2 August 2015. The payment was made on the same day by pay order. On 15 August 2015, AB Enterprises informed Rahbar that with effect from 1 August 2015 their registration has been suspended by the Commissioner Inland Revenue.
 - Wires and cables of Rs. 500,000 and electrical and sanitary fittings of Rs. 900,000. These items were used in the renovation of a factory building.
- An electronic cash register was purchased from High Tech Limited at Rs. 250,000.
- On 28 August 2015, Rahbar paid sales tax of Rs. 170,000 on electricity bill.
- Own manufactured equipment worth Rs. 375,000 was used for internal testing purposes in R&D department.

Chapter 25: Numerical Questions on Sales Tax by ICAP

- (v) Rahbar made free replacement of faulty parts on request from three of his customers. These parts were covered under warranty and had a market value of Rs. 175,000.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 17%.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to Rahbar and the amount of sales tax to be carried forward, if any, for the tax period August 2015. (18)

Note: show all relevant exemptions, exclusions and disallowances.

(Q.5 September 2015)

Question -16

Mulaqat Associates (MA), an association of persons, is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and distribution of various products. Following information has been extracted from MA's records for February 2016:

	Rupees
Supplies:	
Jet fuel to Pak Airways proceeding to Oslo	800,000
Taxable goods to registered customers	590,000
Taxable goods to un-registered customers	375,000
Purchases:	
Taxable goods from registered suppliers	918,000
Taxable goods from un-registered suppliers	150,000
Exempt goods from registered suppliers	100,000
Imports - raw material	280,000

Following information is also available:

- Taxable goods purchased from registered suppliers include furniture of Rs. 45,000 which was acquired for use in the office of marketing manager.
- MA purchased 150 bags of cement, covered under Third Schedule, for the construction of a bungalow for managing partner. Cement was purchased at the wholesale price of Rs. 400 per bag. However, the retail price was Rs. 500 per bag.
- Advance of Rs. 268,000 was made to Nomi Corporation for the purchase of packing materials.
- Taxable goods to un-registered customers include goods worth Rs. 200,000 sold to cottage industry in Bela. The rest of the goods were sold to educational institutions in Zhob.
- On 15 February 2016 MA signed an agreement with Bali Traders (BT), a registered customer, for the sale of goods worth Rs. 290,000. On 20 February 2016 the goods were made available to BT. However, BT took the delivery of goods on 5 March 2016.
- MA sold goods worth Rs. 52,000 to one of its customers on two months credit. The amount was inclusive of 4% mark-up.
- MA distributed free samples of one of its new detergents Zeta among corporate clients. The value of these samples amounted to Rs. 65,000.
- MA issued a debit note of Rs. 35,000 to Hali Brothers to rectify a mistake in MA's sales invoice. The invoice was originally raised in November 2015.
- On 1 February 2016 MA sold 4,000 packs of a new caramel ice cream, covered under Third Schedule, at a discounted price of Rs. 100 per litre pack. The retail price of the ice cream was Rs. 160 per litre pack.
- Sales tax credit brought forward from January 2016 amounted to Rs. 245,000. This amount was inclusive of input tax of Rs. 120,000 paid on a chemical which could not be used before the expiry date and was consequently destroyed in February 2016.

All the above figures are **exclusive of sales tax**, wherever applicable. Sales tax is payable at the rate of 17%.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by/refundable to MA and the amount of sales tax to be carried forward, if any, for the tax period February 2016. (18)

Note: show all relevant exemptions, exclusions and disallowances.

(Q.5 March 2016)

Chapter 25: Numerical Questions on Sales Tax by ICAP

Question-17

Samaaj Associates (SA) is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacturing, trading and export of electronic, chemical and other consumer goods. Following information has been extracted from SA's records for the month of August 2016:

Supplies	Rupees
To registered persons	
To un-registered persons	3,100,000
To persons registered as exporter	875,000
Purchases:	625,000
Raw material from registered persons	
Finished goods from un-registered persons	930,000
Packing material from registered persons	725,000
Local machinery from un-registered persons	510,000
Imports-finished goods	360,000
	472,000

Packing material from registered persons include material worth Rs. 150,000 which was used for packing electric motors. On 31 August 2016 these motors were still part of SA's unsold stock.

Raw material purchased from registered persons includes purchase of Rs. 80,000 of hydrochloric acid from JB Traders. The supplier has not yet deposited the amount of sales tax collected from SA in Government treasury.

- Following transactions pertaining to August 2016 are not included in the above table:
- Sales tax of Rs. 70,000, Rs. 45,000 and Rs. 68,000 was paid in cash on electricity, gas and telephone bills respectively.
 - SA purchased high quality cables and wires worth Rs. 250,000 from a registered supplier.
 - Three cartons of sulphuric acid were supplied to registered distributors at a price of Rs. 110,000 per carton. The distributors normally supply to retailers at a price of Rs. 135,000 per carton.
 - Five electric kettles worth Rs. 75,000 were purchased for use in the offices of factory manager and first line-supervisors of production workers.
 - On 5 August 2016 SA received advance of Rs. 600,000 against supply of electric shavers to Bari Electronics. SA agreed to deliver the goods in September 2016.
 - On 25 August 2016 SA issued discount coupons worth Rs. 450,000 to its customers for participating in grand annual sales exhibition to be held in December 2016.

Other related information is as under:

- On 10 February 2016 SA purchased liquid nitrogen worth Rs. 300,000 from Mughal Chemicals (MC), a registered supplier, on credit. On 15 August 2016 SA paid the outstanding amount to MC by way of a crossed cheque drawn on SA's bank account.
- In April 2016 SA inadvertently charged sales tax of Rs. 58,000 instead of 85,000 on supply of chemicals to one of its registered customers. So far, SA has not obtained permission from the Commissioner Inland Revenue for revision of return.

In July 2016 unadjusted input tax in excess of 90% of output tax amounted to Rs. 10,000.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 17%.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to SA and the amount of sales tax to be carried forward, if any, for the tax period August 2016.

Note: Show all relevant exemptions, exclusions and disallowances.

(18)
(Q.5 September 2016)

Chapter 25: Numerical Questions on Sales Tax by ICAP

Question-18

Jahangir Ali (JA) is registered under the Sales Tax Act 1990. JA runs multiple businesses. Following information has been extracted for the month of February 2017:

	Rupees
Supplies	
Taxable goods exported to Qatar	100,000
Taxable goods to registered customers	750,000
Taxable goods to unregistered customers	550,000
Purchases	
Taxable goods from registered suppliers	3,000,000
Exempt goods from registered suppliers	70,000
Taxable goods from unregistered suppliers	95,000

The following further information is available:

- (i) Taxable goods supplied to registered customers include goods amounting to Rs. 300,000 supplied to an associated company at a special discount of 25%.
 - (ii) Taxable goods purchased from registered suppliers include:
 - goods worth Rs. 320,000 purchased from Akram Limited who was blacklisted on 25 February 2017 due to issuance of flying invoices.
 - goods purchased from ZA Traders amounting to Rs. 30,000. ZA Traders did not declare this amount in its tax return for the month of February 2017.
 - a new machine purchased for Rs. 500,000 which was commissioned into operation during February 2017.
 - office equipment of Rs. 200,000, purchased for the warehouse.
 - (iii) Goods pledged with a bank were sold by the bank in an auction for Rs. 800,000. The normal selling price of these goods was Rs. 1,000,000.
 - (iv) Excess of input tax over output tax brought forward from January 2017 was Rs. 110,000.
- Rate of sales tax is 17%. All figures are exclusive of sales tax.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to JA and the amount of sales tax to be carried forward, if any, for the tax period February 2017.

(17)

(Q.7. March 2017)

Chapter 25: Numerical Questions on Sales Tax by ICAP

Question-19

Cyma Associates (CA) is registered under the Sales Tax Act, 1990, as manufacturer-cum-distributor-cum-retailer. Following information has been extracted from its records for the month of August 2017:

	Rupees
Supplies	
Taxable goods to registered persons	15,000,000
Taxable goods to unregistered persons	3,556,000
Exports	1,500,000
Exempt supplies	1,700,000
Purchases	
Taxable goods from registered suppliers	21,400,000
Taxable goods from unregistered suppliers	1,800,000
Exempt goods from registered suppliers	400,000
Fixed assets (machinery) from a registered supplier	1,000,000

The following additional information is available for August 2017:

- (i) Supply of taxable goods to registered persons include the following:
 - Goods invoiced at Rs.325,000 (net of special discount of Rs.125,000) sold to a government official.
 - On 1 August 2017, CA launched 'Halloween Tooth Brush' which is covered under 3rd schedule. The retail price of the tooth brushes is Rs.100 each. However, being the first month of launching, it was sold at a discounted price of Rs.75 each. 4,000 tooth brushes were sold in August 2017.
- (ii) Exports include supply of taxable goods of Rs.500,000 to a retailer in Export Processing Zone.
- (iii) Exempt supplies include distribution of free samples of exempt goods among the vendors. Value of such goods amounted to Rs.80,000.
- (iv) Purchases from registered suppliers include:
 - material worth Rs.350,000 the payment of which was made by depositing cash directly in the business bank account of the supplier.
 - material worth Rs.800,000 against which a discrepancy has been indicated by the CREST.
 - an amount of Rs.2,000,000 paid for purchase of raw material. However, only 30% of the goods were supplied during August for which sales tax invoice has been issued by the supplier.
- (v) On 1 August 2017, CA executed an agreement with Majeed Sons (MS) for sale of locally purchased goods worth Rs.225,000. The agreement empowers MS to obtain delivery of these goods anytime it likes.
- (vi) Supplies returned by different registered persons amounted to Rs.756,000. Proper debit and credit notes were raised within the specified time.
- (vii) The auditors have proposed a provision against obsolete and expired stock of Rs.285,000 which is lying in CA's warehouse since January 2016.
- (viii) Machinery purchased during the month was commissioned into operations on 31 August 2017.
- (ix) Excess of input tax over output tax in July 2017 amounted to Rs.75,000.

Except where otherwise specified, all figures are exclusive of sales tax. Rate of sales tax is 17%.

Required:
Compute the sales tax liability of CA for the month of August 2017.

(17)

(Q.6 September 2017)

Question-20

Faiz Associates (FA) is a partnership concern and registered under the Sales Tax Act, 1990 as manufacturer-cum-distributor. Following information has been provided by FA for the month of January 2018:

	Rupees
Supplies	
Taxable goods to registered customers	3,450,000
Taxable goods to un-registered customers	1,100,000
Consumable goods supplied on PIA's international flight	500,000
Export	700,000
 Purchases	
Taxable goods from registered suppliers	2,000,000
Taxable goods from un-registered suppliers	450,000
Exempt goods from registered suppliers	600,000
 Input tax brought forward from December 2017	 265,000

Additional information:

- (i) Supply of taxable goods to registered customers include the following:
 - Goods amounting to Rs. 80,000 sold to Hafiz Brothers (HB) on 31 January 2018. HB started business in January 2018 and had filed an application for registration under the Sales Tax Rules 2006 on 30 January 2018. However, no sales tax registration number was issued till 31 January 2018.
 - Goods having market value of Rs. 600,000 which were supplied to Parveen Limited, an associated company, for Rs. 500,000.
 - An invoice erroneously issued for Rs. 450,000 whereas the correct amount of the invoice was Rs. 540,000.
 - Sale to Ghalib Corporation of goods worth Rs. 225,000. The contract for sale has been signed but neither invoice was issued nor any delivery and payment was made in January 2018.
 - (ii) Purchases from registered suppliers include:
 - purchase of two air-conditioners amounting to Rs. 150,000 for FA's new office.
 - an invoice of Rs. 500,000 dated 22 January 2018 issued by Taqi Corporation (TC). However, TC was blacklisted by the Commissioner on 28 January 2018.
 - (iii) FA destroyed certain goods worth Rs. 45,000 after following the due process under the Sales Tax Rules, 2006. Input tax on these goods was claimed in December 2017.
 - (iv) Free replacement of defective parts costing Rs. 400,000 relating to goods which were sold under 1-year warranty. The market value of such parts was Rs. 550,000.
 - (v) A debit note for Rs. 100,000 issued by a customer in respect of goods returned was duly settled.
 - (vi) During the month, FA paid Sindh Sales Tax worth Rs. 8,500 on franchise services.
- Under the Sindh Sales Tax Laws, such tax is not an admissible credit.
- All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 17%.

Required:

Compute sales tax payable by or refundable to Faiz Associates along with input tax to be carried forward, if any, in the sales tax return for the month of January 2018.

Note: Show all relevant exemptions, exclusions and disallowances.

(18)

(Q.7. March 2018)

Chapter 25: Numerical Questions on Sales Tax by ICAP

Question-21

Abid Khan is registered for sales tax purposes and is engaged in the manufacturing of electrical appliances in Multan. His sales and purchases for the month of August 20X8 are summarized below:

Supplies	Rupees
Taxable goods to registered customers	
Taxable goods to un-registered customers	12,618,000
Exports	10,150,000
Exempt supplies	5,000,000
	4,500,000
Purchases	
Taxable goods from registered suppliers - for taxable supplies	25,000,000
- for exempt supplies	1,500,000
Packing materials from un-registered suppliers	9,500,000

Additional information:

- Supplies of taxable goods to registered customers include:
 - an amount of Rs. 4,225,000 against sale of electric toasters at a trade discount of 35%. As per normal business practice, he allows a discount of 10% only.
 - goods supplied against which advance payment of Rs. 2,500,000 had been received in June 20X8.
- Taxable supplies returned by different registered customers amounted to Rs. 900,000. Proper debit and credit notes were raised within the specified time.
- A plant costing Rs. 2,700,000 was commissioned into operation on 15 August 20X8. The plant is being used for taxable supplies only.
- An electricity bill of Rs. 2,600,000 was paid in cash which includes sales tax amounting to Rs. 350,000.
- Input tax brought forward from July 20X8 is Rs. 595,000.

All the above figures are **exclusive of sales tax**, wherever applicable. Sales tax is payable at the rate of 17%.

Required:

Compute sales tax payable by or refundable to Abid Khan along with input tax to be carried forward/refundable, if any, in the sales tax return for the month of August 20X8.

Note: Show all relevant exemptions, exclusions and disallowances.

(14)
(Q.8 September 2018)

Chapter 25: Numerical Questions on Sales Tax by ICAP

Question-22

Following information has been extracted from the records of four registered persons for the month of February 2019:

	Registered Persons			
	A	B	C	D
	----- Rupees-----			
Purchases				
Taxable supplies from registered persons	1,500,000	1,500,000	-	-
Taxable supplies from un-registered persons	-	-	1,500,000	1,500,000
Fixed assets (machinery) from registered supplier				2,500,000
Supplies				
Taxable supplies to registered persons	1,200,000	-	1,000,000	1,000,000
Exempt supplies to registered persons	300,000	-	-	800,000
Taxable supplies to un-registered persons	-	-	800,000	-
Zero rated supplies	300,000	1,800,000	-	-

All the above figures are **exclusive of sales tax**, wherever applicable. Sales tax is payable at the rate of 17%.

Required: In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to each of the above registered persons and input tax to be carry forward, if any, for the tax period February 2019. (15)

(Q.7 March 2019)

Question-23

MH Associates (MHA) is registered under the Sales Tax Act, 1990 as a manufacturer, distributor and retailer. Following information has been provided by MHA for the month of August 20X9:

	Rupees
Supplies	
Taxable goods to registered persons	7,850,000
Taxable goods to unregistered persons	815,000
Exempt goods to unregistered persons	800,000
Purchases	
Taxable goods from registered persons	6,480,000
Exempt goods from registered persons	1,500,000
Taxable goods from unregistered persons	1,100,000

Additional information:

- Supplies of taxable goods to registered persons include an invoice erroneously issued to Rasheed for Rs.270,000 whereas the correct amount of invoice was Rs. 720,000.
- Supplies of taxable goods to unregistered persons include sale of Rs. 365,000 to end consumers.
- Purchases from registered suppliers of taxable goods include:
 - an amount of Rs. 1,800,000 paid for purchase of raw material. However only 40% of the goods were supplied during August 20X9.
 - goods worth Rs. 1,200,000 against which a discrepancy has been indicated by the CREST.
- Two machines A and B costing Rs. 900,000 and Rs. 1,200,000 respectively were acquired and commissioned into operation on 15 August 20X9. Machine A has been used for taxable supplies only whereas Machine B has been used for exempt supplies only.
- Input tax amounting to Rs. 120,000 was paid on 15 March 20X9 but inadvertently it could not be claimed in the return for March 20X9 and thereafter.
- An electricity bill of Rs. 670,000 was paid in cash which included sales tax amounting to Rs. 95,000.
- Taxable supplies of Rs. 90,000 were returned by the registered customers during the period. Proper debit/credit notes were issued within the specified time.
- Sales tax credit brought forward from previous month amounted to Rs. 255,000.

Except where otherwise specified, all figures are exclusive of sales tax. Rate of sales tax is 17%.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to MHA and input tax to be carry forward, if any, for tax period August 20X9. (16)

(Q.7 September 2019)

Question-24

Following information has been extracted from the records of two different persons registered under the Sales Tax Act, 1990 for the month of February 2020:

	Registered persons	
	Taha	Shan
	-----Rupees-----	
Purchases:		
Taxable supplies from registered persons	-	11,000,000
Taxable supplies from unregistered persons	3,500,000	-
Exempt goods	-	3,000,000
Fixed assets (machinery) from a registered supplier (Note A)	5,000,000	6,000,000
Supplies:		
Taxable supplies to registered persons	-	10,000,000
Taxable supplies to unregistered persons	2,000,000	-
Exempt supplies to registered persons	3,800,000	5,500,000
Zero rated supplies	2,500,000	-

Note A:

- In case of Taha, the machinery has been used for exempt as well as zero rated supplies.
- In case of Shan, the machinery has been used for taxable supplies only.

All the above figures are **exclusive of sales tax**. Sales tax is payable at the rate of 17%.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to each of the above registered persons and input tax to be carried forward, if any, for the tax period February 2020.

(13)

(Q.6 March 2020)

Question-25

JF Associates (JFA) is registered under the Sales Tax Act, 1990 as a manufacturer. Following information has been provided by JFA for the month of August 2020:

	Rupees
Supplies	
Taxable goods to registered persons	7,500,000
Taxable goods to unregistered persons	1,300,000
Exempt goods to unregistered persons	1,000,000
Exports to Saudi Arabia	500,000
Purchases	
Taxable goods from registered persons	7,400,000
Taxable goods from unregistered persons	1,100,000
Fixed assets (machines) from a registered supplier	2,500,000

Additional information:

- (i) Supplies of taxable goods to registered persons include:
 - goods worth Rs. 560,000 sold to a new customer at discount of 20%. JFA normally allows discount of 10% to its customers.
 - an invoice issued to Qasim erroneously for Rs. 590,000 whereas the correct amount of invoice was Rs. 950,000.
- (ii) Supplies of taxable goods to unregistered persons include sales of Rs. 28,500 to end consumers.
- (iii) Exempt supplies of Rs. 50,000 were returned by the unregistered customers during the period.
- (iv) Two machines A and B costing Rs. 1,500,000 and Rs. 1,000,000 respectively were acquired and commissioned into operation in August 2020. Machine A has been used for the manufacture of taxable (local) as well as exempt supplies whereas Machine B has been used only for manufacture of export supplies.
- (v) Input tax on an invoice of Rs. 1,200,000 was paid on 15 March 2020 but inadvertently it could not be claimed in the return for March 2020 and thereafter.
- (vi) Electricity bill of Rs. 859,950 was paid in cash. The bill was inclusive of sales tax of Rs. 124,950.
- (vii) Sales tax credit brought forward from previous month amounted to Rs. 425,000.

Except where otherwise specified, all figures are exclusive of sales tax. Rate of sales tax is 17%. Proper debit/credit notes were issued within the specified time wherever required.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to JFA and input tax to be carried forward, if any, for tax period August 2020. (18)

(Q.7 Sep. 2020)

Chapter 25: Numerical Questions on Sales Tax by ICAP

Question-26

Hadi Associates (HA), a sole proprietor business, is registered under the Sales Tax Act, 1990 as manufacturer cum importer and is engaged in the manufacturing and supply of consumer products. Following information has been extracted from HA's records for the month of February 2021:

Supplies	Rupees
Taxable goods to registered customers	2,630,000
Taxable goods to un-registered customers	1,050,000
Exports of taxable goods to Saudi Arabia	1,500,000
Purchases	
Taxable goods from registered suppliers	1,890,000
Taxable goods from un-registered suppliers	1,000,000
Packing material from un-registered suppliers	445,000

Additional information:

- (i) Supplies of taxable goods to registered customers include:
 - Goods worth Rs. 225,000 (net of special discount of Rs. 75,000). These goods were sold to an associated undertaking. The special discount was not reflected on the invoice.
 - Goods worth Rs. 120,000 supplied to a customer in Multan. HA had received full payment against the goods in November 2020.
- (ii) Supplies of taxable goods to unregistered customers include sales of Rs. 130,000 to end consumers.
- (iii) Purchases from registered suppliers include:
 - Goods worth Rs. 100,000 purchased from Haq Enterprises on 5 February 2021. On 20 February 2021, Haq Enterprises informed HA that with effect from 1 February 2021, its registration has been suspended by the Commissioner Inland Revenue.
 - Goods worth Rs. 85,000 purchased in cash.
 - Goods worth Rs. 50,000 purchased from AB Traders. The supplier did not declare the sale of these goods in its tax return for the month of February 2021.
- (iv) Taxable goods worth Rs. 150,000 were used in the business meeting held for the promotion of HA's business.
- (v) A machine costing Rs. 2,500,000 was acquired and commissioned into operation in February 2021. The machine was used for both taxable and zero rated supplies.
- (vi) Electricity bill of Rs. 90,000 for the month of September 2020 was paid in October 2020. However, related input tax of Rs. 13,000 has still inadvertently remained unclaimed.
- (vii) The auditors have proposed to make a provision of 50% against obsolete and expired stock of Rs. 350,000. The goods are lying in warehouse since July 2017. Input tax relating to this stock was claimed in July 2017.
- (viii) Sales tax credit of Rs. 415,000 has been brought forward from previous tax period.

All the above figures are exclusive of sales tax, except where it is specified otherwise. Sales tax is payable at the rate of 17%.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to HA and input tax to be carried forward, if any, for the tax period February 2021. (16)

(Q.6 March 2021)

CROSS REFERENCING OF ADJUSTMENTS OF NUMERICALS

Q. No.	Adjustment	Reference
1		
2	2nd last bullet	S. 73 (2)
3	No. (v)	S. 73 (2)
	No. (i)	S. 7 (1) Last two lines
6	No. (iv)	S. 8B (1)
	No. (v)	Input on electricity bill is allowed as it is not mentioned in S.8 that it is not allowed.
7	No. (ii) Last line	S. 73 (2)
	No. (i)	S. 8B (1)
8	No. (iv)	S. 73 (2)
	No. (i)	If exempt goods are exported it will be considered as zero rate supply.
9	No. (iv)	S. 7 (1) Last two lines
	No. (ii)	Sec 7 (2) Invoice does not contain our name so not allowed.
10	No. (iii)	Sec 8B (1)
	No. (ii)	Sec 2 (46) (iv)
11	No. (v)	Sec 8B (1)
12	No. (i)	Sec 7 (1) Last two lines
	No. (ii)	It is a cash discount which is always ignored. Only trade discount is allowed if certain conditions are met.
13	No. (iii)	Sec 2 (44) Definition of time of supply.
	No. (iv)	Sec 2 (33) As bank is selling on our behalf so it is taxable as normal sale.
	No. (i)	Sec 2 (46) (ii) Definition of value of supply.
14	No. (ii)	Sec 7 (1) Last two lines
	No. (iii)	Sec 7 (2) As he is not holding invoice he cannot record input.
	No. (iv)	Sec 8B (1)
	No. (i) First bullet	Sec 8 (1) (caa) Input not allowed
	No. (i) Second bullet	Rule 12 (a) (v) Input not allowed
	No. (i) Third bullet	Sec 8 (1) (h) Input not allowed
15	No. (ii)	As per Sec 8 (1) (i) input on Electronic cash register is allowed. Further it will be classified as fixed asset.
	No. (iii)	Input on electricity bill is allowed as it is not mentioned in S.8 that it is not allowed.
	No. (iv)	As per S.2 (33) "definition of supply" business use of goods produced is supply. Own manufactured Equipment is used for internal testing so it is a supply.
	No. (v)	Free replacement is not taxable as it is a sale return and sale at same time so it has no impact.
	No. (i)	As per S. 8 (1)(i) input is not allowed on furniture.
16	No. (ii)	As per S.8 (1) (g) input is not allowed on personal consumption. As purchases are used in margining partner own house so input is not allowed. Further it is not included in purchase. So it has no impact on numerical.
	No. (vi)	As per Sec 2 (46) (iii) Sales are chargeable at a price excluding markup. So no tax will be charged at markup. As markup is included in figure so it will be excluded.
	No. (vii)	As per Sec 2 (33) definition of supply putting the goods to business, non business or private use is a supply. So distribution of free sample fall under definition of supply.
	No. (ix)	The goods under third schedule are chargeable at retail price as per S. 3(2)(a). Therefore Rs. 100 is irrelevant. Tax will be charged at retail price of Rs. 160.

ICAP PAST PAPER SOLUTIONS**Answer-1**

Star Enterprises
Computation of Sales Tax Payable / Refundable
For the tax period June

Output tax	(1,000,000+5,000,000)x17%		1,020,000
Less: Input tax (lower of)			
- Actual input tax		663,000	
- 90% of output	(1,020,000 x 90%)	918,000	(663,000)
Further tax @3% of sale to un-registered Payable	(5,000,000 x 3%)		357,000
			150,000
			507,000
Refundable against exports			276,250

Calculation of input tax

(only that input which is common i.e. not specifically attributable to taxable, exempt or zero rated supplies)

Local purchases from registered persons	(6,500,000 x 17%)	1,105,000
Less: Purchase return	(650,000 x 17%)	(110,500)
		994,500

Apportionment of input tax

Taxable local supplies (1,000,000+5,000,000)
 Exempt supplies
 Zero rated supplies

Turnover	Common Input
6,000,000	663,000
500,000	55,250
2,500,000	276,250
9,000,000	994,500

Answer-2

M/S Rainbow Enterprises (Private) Ltd
Computation of Sales Tax Payable / Refundable
For the tax period July 2005

Output tax			1,105,000
Less: Input tax (lower of)			
- Actual input tax		410,429	
- 90% of output	(1,105,000 x 90%)	994,500	(410,429)
Further tax @3% of sale to un-registered Payable	(1,500,000 x 3%)		694,571
			45,000
			739,571
Refundable against exports			189,428

Calculation of output taxSales to Un-registered personSales to Other than unregistered person

Tax @ 17 %

Calculation of input tax

(only that input which is common i.e. not specifically attributable to taxable, exempt or zero rated supplies)

Local purchases from registered persons	(4,000,000 x 17%)	680,000
Less: Debit note in respect of purchase ret.	(100,000 x 17%)	(17,000)
		663,000

Chapter 25: Numerical Questions on Sales Tax by ICAP

Apportionment of input tax

Taxable local supplies (5,000,000+1,500,000)
Exempt supplies
Zero rated supplies

Turnover
6,500,000
1,000,000
3,000,000
10,500,000

Common Input
410,429
63,143
189,428
663,000

Answer-3

Mr. Adam Computation of Sales Tax Payable / Refundable For the tax period February 2007

		Rs. in "000"
Output tax		5,865
Less: Input tax (lower of)		
- Actual input tax		2,793
- 90% of output	(5,865 x 90%)	5,279
		<u>(2,793)</u>
Further tax @3% of sale to un-registered	(5,000 x 3%)	3,072
Payable		<u>150</u>
Add:		3,222
Arrears		500
Surcharge		70
Penalty		30
Total tax payable		<u>3,822</u>
Refundable against exports		4,048
<u>Calculation of output tax</u>		
Sales to un-registered person		5,000
Sales to other than un-registered person		30,000
		<u>35,000</u>
Less: Credit note for sale return		(500)
		<u>34,500</u>
Tax @ 17%		5,865
<u>Calculation of input tax</u>		
Local purchases from registered persons	(45,000 x 17%)	7,650

Apportionment of input tax

Taxable local supplies
Exempt supplies
Zero rated supplies

Turnover
34,500
10,000
50,000
94,500

Common Input
2,793
809
4,048
7,650

Answer-4

Mr. Azad
Computation of Sales Tax Payable / Refundable
For the tax period February 2009

Output tax			
Less: Input tax (lower of)			
- Actual input tax			1,020,000
- 90% of output	(1,020,000 x 90%)	938,400	
		918,000	(918,000)
Less: Input tax on fixed assets			102,000
Sales tax to be carried forward			(173,400)
			(71,400)
Input tax to be carried forward	(938,400-918,000)		20,400

Apportionment of common input tax

	Turnover	Other than Machine input	Machine input
Taxable local supplies	6,000,000	938,400	173,400
Exempt supplies	4,000,000	625,600	115,600
	<u>10,000,000</u>	<u>1,564,000</u>	<u>289,000</u>

Answer-5

Mr. Asif
Computation of Sales Tax Payable / Refundable
For the tax period August 2009

Output tax	(5,000,000+3,000,000) x 17%		1,360,000
Less: Input tax (lower of)			
- Actual input tax		518,095	
- 90% of output	(1,360,000 x 90%)	1,224,000	(518,095)
			841,905
Further tax @3% of sale to un-registered	(3,000,000 x 3%)		90,000
Payable			<u>931,905</u>
Refundable against exports			712,381

Calculation of input tax

Local purchases from registered persons	(8,000,000 x 17%)	1,360,000
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Apportionment of input tax

	Turnover	Common Input
Taxable local supplies (5,000,000 + 3,000,000)	8,000,000	518,095
Exempt supplies	2,000,000	129,524
Zero rated supplies	11,000,000	712,381
	<u>21,000,000</u>	<u>1,360,000</u>

Answer-6

a)

Maroof Engineering Limited (MEL)
Computation of Sales Tax Payable / Refundable
For the tax period February 2011

2,127,550

Output tax	(W-1)		
Less: Input tax (lower of)		1,216,735	
- Actual input tax	(W-3)	50,000	
Add: b/f input	(given)	1,266,735	
		1,914,795	(1,266,735)
- 90% of output	(2,127,550 x 90%)		860,815
			(208,286)
Less: Input tax on fixed assets	(W-4)		652,529
			90,000
Further tax @3% of sale to un-registered (3,000,000 x 3%)			742,529
Payable			1,138,649

Refundable against exports (972,221 + 166,428)

b) No input tax is to be carried forward

(W-1) Calculation of output tax

Sale to un-registered person	3,000,000
Sales to other than un-registered persons	10,000,000
Taxable supplies	15,000
Parts provided to CEO	13,015,000
	(500,000)
Less: Sale return	12,515,000
	2,127,550

Tax @ 17%

(W-2) Calculation of common input tax

Local purchases from registered persons	15,000,000	
Less: Purchases wrongly included	(1,000,000)	
	14,000,000	2,380,000
Electricity bill	(20,000 x 17%)	3,400
		2,383,400

(W-3) Apportionment of input tax

	Turnover	Common Input
Taxable local supplies	12,515,000	1,216,735
Exempt supplies	2,000,000	194,444
Zero rated supplies	10,000,000	972,221
	24,515,000	2,383,400

(W-4) Apportionment of input tax on machinery

Machinery (2,400,000 x 17%)

	Turnover	Common Input
Taxable local supplies	12,515,000	408,000
Exempt supplies	2,000,000	208,286
Zero rated supplies	10,000,000	33,286
	24,515,000	166,428
		408,000

Answer-7

Mr. Agha
Computation of Sales Tax Payable / Refundable
For the tax period August 2011

Calculation of tax liability

Output tax				Rs.
Less: Input tax (lower of)		4,914,778		
- Actual input tax		610,000		
Add: b/f input	(given)	5,524,778		
		5,462,139	(5,462,139)	
			606,904	
			51,008	
			657,912	
			10,000	
			667,912	
			3,510,531	
			62,639	
Add: Further tax @3% of sale to un-registered	(1,700,250 x 3%)			
Payable				
Add: Penalty				
Total payable				
Refundable against exports				
Input tax to be carried forward	(5,524,778 - 5,462,139)			
			1,700,250	
			35,500,000	
			37,200,250	
			(1,500,000)	
			35,700,250	
			6,069,043	
Less: Sale return				
Tax @ 17%				

Calculation of input tax

Local purchases from registered persons (53,800,000 x 17%)

9,146,000
9,146,000

Apportionment of input tax

	Turnover	Common Input
Taxable local supplies	35,700,250	4,914,778
Exempt supplies	5,235,000	720,691
Zero rated supplies	25,500,000	3,510,531
	66,435,250	9,146,000

Note: Liability outstanding till January 2011 should have been adjusted in July 2011, so it is ignored for the month of August 2012.

Chapter 25: Numerical Questions on Sales Tax by ICAP

Answer-8

Mr. Folad Computation of Sales Tax Payable / Refundable For the tax period February 2012

Output tax (W-1)			12,838,400
Less: Input tax (lower of)			
- Actual input tax (W-3)		9,568,406	
Add: b/f input (given)		910,500	
		<u>10,478,906</u>	
- 90% of output (12,838,400 x 90%)		11,554,560	(10,478,906)
			2,359,494
			(1,746,325)
			613,169
			295,500
			<u>908,669</u>
Less: Input tax paid on fixed assets			
Further tax @3% of sale to un-registered (9,850,000 x 3%)			
Tax Payable			

Input tax refundable against exports (1,609,094 + 293,675) 1,902,769

(W-1) Calculation of output tax

Sales to un-registered persons		9,850,000
Sales to other than un-registered persons		72,870,000
		82,720,000
		(7,200,000)
		75,520,000
		<u>12,838,400</u>

Less: Sale return

Tax @ 17%

(W-2) Calculation of input tax

Common input		
Local purchases from registered persons (70,250,000 x 17%)		11,942,500
Less: Purchase return (4,500,000 x 17%)		(765,000)
		<u>11,177,500</u>

Input tax on fixed assets (12,000,000 x 17%) 2,040,000

(W-3) Apportionment of input tax

<u>Purchases of goods</u>	Turnover	Common Input
Taxable local supplies	75,520,000	9,568,406
Zero rated	12,700,000	1,609,094
	<u>88,220,000</u>	<u>11,177,500</u>

Purchases of fixed asset

	Turnover	Common Input
Taxable local supplies	75,520,000	1,746,325
Zero rated	12,700,000	293,675
	<u>88,220,000</u>	<u>2,040,000</u>

Note: Liability outstanding till July 2011 should have been adjusted in January 2012, so it is ignored for the month of February 2012.

Answer-9

Zainab

Computation of Sales Tax Payable / Refundable
For the tax period August 2012

a) Calculation of tax liability

Output tax			
Less: Input tax (lower of)			
- Actual input tax b/f input			171,700
	79,441		
- 90% of output	262,500	341,941	
Tax Payable	(171,700 x 90%)	154,530	(154,530)
			17,170
b) Input to be carried forward	(341,941 - 154,530)		187,411

Refundable against zero-rated

Calculation of output tax

Sales to other than un-registered persons
Tax @ 17%

511,256
1,010,000
171,700

Calculation of input tax

Common input

Purchase of raw material

Less: Purchase return

Add: Invoice omitted

(6,000,000 x 17%)
(150,000 x 17%)
(100,000 x 17%)
1,020,000
(25,500)
17,000
1,011,500

Apportionment of input tax

Taxable local supplies

Zero-rated

Exempt

(2,550,000 + 3,950,000)

Turnover	Common Input
1,010,000	79,441
6,500,000	511,256
5,350,000	420,803
12,860,000	1,011,500

Chapter 25: Numerical Questions on Sales Tax by ICAP

Answer-10

Mr. Clever
Computation of Sales Tax Payable / Refundable
For the tax period February 2013

Calculation of tax liability

Output tax	4,417,391		4,948,700
Less: Input tax (lower of)	410,000	4,827,391	
- Actual input tax b/f input		4,453,830	(4,453,830)
- 90% of output (4,948,700 x 90%)			494,870
			(327,295)
			167,575
Less: Input on fixed assets			106,500
	(3,550,000 x 3%)		274,075
Further tax @3% of sale to un-registered Payable			
	(4,827,391 - 4,453,830)		373,561
Input to be carried forward Refundable against zero-rated	(2,465,909 + 182,705)		2,648,614

Calculation of output tax

Sales to un-registered persons

Sales to other than un-registered persons

Less: Sale return

Tax @ 17%

3,550,000
26,860,000
30,410,000
(1,300,000)
29,110,000
4,948,700

Calculation of input tax

Common input

Purchase

Input on fixed assets

Fixed assets

(40,550,000 - 60,000) x 17%	6,883,300
(3,000,000 x 17%)	510,000

Apportionment of input tax

Taxable local supplies

Zero-rated (1,250,000 + 15,000,000)

Turnover	Common Input	Fixed assets
29,110,000	4,417,391	327,295
16,250,000	2,465,909	182,705
45,360,000	6,883,300	510,000

Answer-11

Mr. Faizan
Computation of Sales Tax Payable / Refundable
For the tax period August 2013

Calculation of tax liability

Output tax			3,808,935
Less: Input tax (lower of)			
- Actual input tax	3,620,469		
Add : b/f input	<u>850,280</u>	4,470,749	
- 90% of output	(3,808,935 x 90%)	3,428,042	(3,428,042)
Further tax @3% of sale to un-registered (3,990,000 x 3%)			380,893
			<u>119,700</u>
Add: Penalty			500,593
Payable			<u>10,000</u>
			<u>510,593</u>
Refundable against exports			969,531
Input tax to be carried forward	(4,470,749 - 3,428,042)		1,042,707
<u>Calculation of output tax</u>			
Sales to un-registered persons			3,990,000
<u>Sales to other than un-registered persons</u>			
- Noori			15,200,000
- Soori	(4,000,000 - 5% x 4,000,000)		3,800,000
- Friend			<u>33,000</u>
			23,023,000
Less: Sale return			(617,500)
			<u>22,405,500</u>
Tax @ 17%			<u>3,808,935</u>

Calculation of input tax

Local purchases from registered persons (27,000,000 x 17 %)	4,590,000
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Apportionment of input tax

	Turnover	Common Input
Taxable local supplies	22,405,500	3,620,469
Zero rated supplies	<u>6,000,000</u>	<u>969,531</u>
	<u>28,405,500</u>	<u>4,590,000</u>

Mr. Zaheer
Computation of Sales Tax Payable / Refundable
For the tax period February 2014

Answer-12

Output tax	2,140,347		2,516,000
Less: Input tax (lower of)	1,200,000	3,340,347	
- Actual input tax		2,264,400	(2,264,400)
- b/f input			251,600
- 90% of output (2,516,000 x 90%)			120,000
			371,600
Further tax @3% of sale to un-registered (4,000,000 x 3%)			
	(3,340,347 - 2,264,400)		1,075,947
Input tax to be carried forward			1,590,799
Refundable against exports			

Calculation of output taxSales to un-registered personsSales to other than un-registered persons

Less: Sale return

Tax @ 17%

4,000,000
12,000,000
16,000,000
(1,200,000)
14,800,000
2,516,000

Calculation of input taxCommon input

Purchase

Invoice of November

(23,000,000 x 17%)

(1,500,000 x 17%)

3,910,000
255,000
4,165,000

Apportionment of input tax

Taxable local supplies

Zero-rated

Exempt

Turnover	Common Input
14,800,000	2,140,347
11,000,000	1,590,799
3,000,000	433,854
28,800,000	4,165,000

Mr. Ali trading company
Computation of Sales Tax Payable / Refundable
For the tax period August 2014

Calculation of tax liability

Output tax			5,048,147
Less: Input tax (lower of)			
- Actual input tax	4,779,733		
Add : b/f input	<u>854,700</u>	5,634,433	
- 90% of output	(5,048,147 x 90%)	4,543,332	(4,543,332)
			<u>504,815</u>
Refundable against exports			3,001,922
Input tax to be carried forward	(5,634,433 - 4,543,332)		1,091,101

Calculation of output tax

Sales to other than un-registered persons

Supplies to wholesalers	15,000,000
Supplies to distributors	10,254,980
Supplies to registered retailers	980,000
Goods pledged with bank	4,000,000
Advance from Imran Associates	-
	<u>30,234,980</u>
Less: Sale return	(540,000)
	<u>29,694,980</u>
Tax @ 17%	5,048,147

Calculation of input tax

Local purchases from registered persons	(50,982,000 x 17%)	8,666,940
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Apportionment of input tax

	Turnover	Common Input
Taxable local supplies	29,694,980	4,779,733
Zero rated supplies	18,650,000	3,001,922
Exempt supplies	5,500,000	885,285
	<u>53,844,980</u>	<u>8,666,940</u>

- Settlement discount has no effect, only trade discount is considered while calculating tax liability

Answer-14

Mr. Bashir Sales tax Liability for the month of February

Calculation of tax liability

Output tax			4,858,600
Less: Input tax (lower of)			
- Actual input tax b/f input	3,299,372		
	<u>410,000</u>	3,709,375	
- 90% of output (4,858,600 x 90%)		4,372,740	(3,709,375)
			<u>1,149,225</u>
Less: Input on fixed assets			(374,268)
			<u>774,960</u>
Further tax @3% of sale to un-registered Payable	(2,500,000 x 3%)		<u>75,000</u>
Refundable against zero-rated	(230,887 + 26,191)		<u>849,960</u>
			257,078

Calculation of output tax

Sales to un-registered persons		2,500,000
Sales to other than un-registered persons	(25,980,000 - 300,000 + (300,000/75x100))	<u>26,080,000</u>
		28,580,000
Tax @ 17%		<u>4,858,600</u>

Calculation of input tax

Common input		3,690,700
Purchase from registered person	(21,710,000 x 17%)	<u>55,900</u>
Add: Tax on January purchases		3,746,600

Input on fixed assets

Fixed assets	(2,500,000 x 17%)	425,000
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Apportionment of input tax

	Turnover	Common Input	Fixed assets
Taxable local supplies	28,580,000	3,299,372	374,268
Zero-rated	2,000,000	230,887	26,191
Exempt	1,874,000	216,341	24,541
	<u>32,454,000</u>	<u>3,746,600</u>	<u>425,000</u>

Not included:

- Input cannot be claimed in adjustment (iii) as invoice is not received.

Answer-15

Rahbar
Computation of Sales Tax Payable / Refundable
For the tax period August

Calculation of tax liability

Output tax

Less: Input tax (lower of)
 - Actual input tax
 - 90% of output

Less: Input on fixed assets
 Tax Payable to Government

Carry forward input tax

Calculation of output taxSales to other than un-registered persons

Taxable supplies – registered

Own use of goods manufactured-(Refer definition of supply)

Tax @ 17%

		Rs.
		3,463,750
(3,463,750 x 90%)	3,126,051	
	<u>3,117,375</u>	<u>(3,117,375)</u>
		346,375
		<u>(35,849)</u>
		<u>310,526</u>
(3,126,051 - 3,117,375)		8,676

Calculation of Input taxInput other than fixed asset

Purchases

Less: Purchases in which discrepancy identified by crest

Less: Purchases from AB enterprise

Less: Purchases for renovation of factory building

Tax on above @17%

Add: Tax on electricity bill

Input on fixed asset

Fixed asset (250,000 x 17%)

Apportionment of input tax

Taxable local supplies

Exempt

Not included:

- Free replacements are not taxable, hence ignored.

Turnover	Common Input	Fixed assets
20,375,000	3,126,051	35,849
3,780,000	579,949	6,651
<u>24,155,000</u>	<u>3,706,000</u>	<u>42,500</u>

Chapter 25: Numerical Questions on Sales Tax by ICAP

Answer-16

Mulaqat Associates Computation of Sales Tax Payable / Refundable For the tax period February

Calculation of tax liability

Output tax			Rs 347,650
Less: Input tax (lower of)			
- Actual input tax		140,893	
Add: b/f input	(245,000 - 120,000)	125,000	
		265,893	
		312,885	(265,893)
- 90% of output (347,650 x 90%)			81,757
Tax Payable to Government			55,117
Refundable against zero rated supplies			

Calculation of Output tax

Taxable sale		590,000
As per question		375,000
Add: Taxable sales to un-reg. (to cottage industry and to end consumer i.e. educational institute)		290,000
Add: Sale to Bali Traders taxable being made available (v)	(52,000/104 x 100)	50,000
Add: Sale of goods on mark-up		65,000
Add: Free samples distribution		35,000
Add: Issuance of debit note (Increase in sale price)		640,000
Add: Items falling under third schedule taxable at retail price (4,000 x 160)		2,045,000
		347,650

Tax @ 17%

Calculation of Input tax

Taxable purchase from registered As per question	918,000	
Less: Furniture purchases not qualifying for tax credit being used in office (i)	(45,000)	873,000
Import of raw material As per question		280,000
Add: Advance for packing material from Nomi (iii)		-
		1,153,000
		196,010

Input tax@17%

Apportionment of input tax

	Turnover	Common Input
Taxable local supplies	2,045,000	140,893
Zero rated supplies	800,000	55,117
	2,845,000	196,010

- No input will be allowed in adjustment no. (ii) as it is a personal consumption [S. 8 (1) (g)].

Chapter 25: Numerical Questions on Sales Tax by ICAP

Answer-17

Samaaj Associates Computation of Sales Tax Payable / Refundable For the tax period August 2016

Calculation of tax liability

Output tax			Rs.
Less: Input tax (lower of)			865,100
- Actual input tax			
Add: b/f input	(given)	485,940	
		10,000	
		495,940	
- 90% of output	(865,100 x 90%)	778,590	(495,940)
			369,160
Add: Further tax @3% of sale to un-registered	(875,000 x 3%)		26,250
Total payable			395,410

Calculation of output tax

Sales to un-registered persons		875,000
Sales to other than un-registered persons		
registered persons		3,100,000
Sales to exporter		625,000
Sale of sulphuric acid	(110,000 x 3)	330,000
Advance against supply		-
Increase in Value of Supply	$((85,000 - 58,000) / 17) \times 100$	158,824
		5,088,824
Tax @ 17%		865,100

Calculation of common input tax

Local purchases from registered persons	$(930,000 - 80,000) \times 17\%$	144,500
Purchase of 80,000 (not allowed)		-
Packing Material	$(510,000 \times 17\%)$	86,700
Imports	$(472,000 \times 17\%)$	80,240
Sales tax paid on Utilities	$(70,000 + 45,000 + 68,000)$	183,000
Purchase of high quality cables	$(250,000 \times 17\%)$	42,500
Less: Credit disallowed due to not making payment within 180 days	$(300,000 \times 17\%)$	(51,000)
		485,940

Notes:

- Input on unsold stock of Packing material purchased for electric motor is allowed as deduction because as per Sec 7 (1) we can deduct input on supplies to be made as well. Therefore Rs. 150,000 is ignored.
- Input is not allowed on office equipment. Therefore input on electric kettle is ignored in adjustment (iv)
- Discount of Rs. 450,000 is ignored being not mentioned on sales tax invoice.

Answer-18

Mr. Jahangir Ali
Computation of Sales Tax Payable / Refundable
For the tax period February 2017

Calculation of tax liability

Output tax			Rs. 408,000
Less: Input tax (lower of)			
- Actual input tax		318,240	
Add: b/f input	(given)	110,000	
		428,240	
- 90% of output	(408,000 x 90%)	367,200	(367,200)
			40,800
Less: Input tax on Fixed Assets			(81,600)
Sales tax to carried forward			(40,800)
Further tax @3% of sale to un-registered	(550,000 x 3%)		16,500
Sales tax payable			16,500
Refundable against exports	(13,260 + 3,400)		16,660
Input tax to be carried forward	(428,240 - 367,200)		61,040

(W-1) Calculation of output tax

Sales to un-registered persons		550,000
Sales to other than un-registered persons		
registered persons		750,000
Effect of Sales to associate	(300,000 / 75 x 25)	100,000
Good pledged sold by bank		1,000,000
		2,400,000
Tax @ 17%		408,000

(W-2) Calculation of common input tax

Other than Fixed Assets

Local purchases from registered person (3,000,000 - 320,000 - 30,000 - 500,000 - 200,000)	1,950,000
Purchases from Akram - Blacklisted (Inadmissible)	-
Purchases from ZA Traders who did not declare his supply (Inadmissible)	-
Office equipments for warehouse (Inadmissible)	-
Exempt goods from registered suppliers of Rs. 70,000 (Inadmissible)	-
Taxable goods from un-registered suppliers of Rs. 95,000 (Inadmissible)	-
	1,950,000

Common Input Tax	(1,950,000 x 17%)	331,500
<u>On Fixed Assets</u>	(500,000 x 17%)	85,000

(W-3) Apportionment of input tax

	Turnover	Common Input	Fixed Assets Input
Taxable local supplies	2,400,000	318,240	81,600
Zero rated supplies	100,000	13,260	3,400
	2,500,000	331,500	85,000

Answer-19

Cyma Associates
Computation of Sales Tax Payable / Refundable
For the tax period August 2017

Calculation of tax liability

Output tax	(18,750,000 x 17%)		Rs. 3,187,500
Less: Input tax (lower of)			
- Actual input tax		2,801,136	
Add: b/f input		75,000	
		2,876,136	
- 90% of output	(3,187,500 x 90%)	2,868,750	(2,868,750)
			318,750
Less: Input tax on fixed assets			(148,601)
			170,149
Further tax @ 3% of sales to un-registered	(3,556,000 x 3%)		106,680
Tax Payable to Government			<u>276,829</u>
Sales Tax to be carried forward	(2,876,136 - 2,868,750)		7,386
Refundable against zero rated supplies	(149,394 + 7,925)		157,319

Taxable sales

Sales to un-registered persons		3,556,000
Taxable goods to un-registered persons		
Sales to persons other than un-registered		
Taxable goods to registered persons	(15,000,000 - 325,000 + 450,000 - 75 x 4,000 + 100 x 4,000)	15,225,000
Sale to retailers in Export processing Zone (ii)		500,000
Goods made available to Majeed Sons (v)		225,000
		15,950,000
		19,506,000
		(756,000)
Less: Sales Return		<u>18,750,000</u>

Calculation of Input tax

Input tax other than fixed assets		3,204,500
Taxable goods from registered suppliers	(21,400,000 - 350,000 - 800,000 - 1,400,000) x 17%	
Purchase of material of Rs. 350,000 by not making payment through cheque (inadmissible)		-
Purchase of material of Rs. 800,000 for which discrepancy indicated by CREST (inadmissible)		-
Purchase of Rs. 1,400,000 (2,000,000 x 70%) for which invoice not held (inadmissible)		-
Taxable goods of 1,800,000 from un-registered suppliers - inadmissible		-
Exempt goods of 400,000 from registered suppliers - inadmissible		-
		<u>3,204,500</u>

Input tax on fixed assets	(1,000,000 x 17%)	170,000
---------------------------	-------------------	---------

Apportionment of input tax

	Turnover	Common Input	Fixed Asset
Taxable local supplies	18,750,000	2,801,136	148,601
Export supplies (1,500,000 - 500,000)	1,000,000	149,394	7,925
Exempt supplies - no effect of free samples (iii)	1,700,000	253,970	13,473
	<u>21,450,000</u>	<u>3,204,500</u>	<u>170,000</u>

Note: Provision for obsolete stock made in accounting books does not fall under the definition of supply, so adjustment (vii) is ignored.

Chapter 25: Numerical Questions on Sales Tax by ICAP

Answer-20

Faiz Associates Computation of Sales Tax Payable / Refundable For the tax period January 2018

Rs. in 000
751

Calculation of tax liability

Output tax			
Less: Input tax (lower of)		175	
- Actual input tax		265	
Add: b/f input		440	
		676	(440)
- 90% of output (751 x 90%)			311
			35
Further tax @ 3% of sales to un-registered	(1,180 x 3%)		346
Tax Payable to Government			

47

Refundable against zero rated supplies

Calculation of Output

Sales to un-registered persons		1,180
Taxable goods to un-registered customers	(1,100 + 80)	
Sales to persons other than un-registered		3,335
Taxable goods to registered customers	(3,450 - 80 - 500 + 600 - 450 + 540 - 225)	4,515
		(100)
Less: Sale return		4,415
		751
Tax @ 17%		

Calculation of Input tax

Taxable goods from registered suppliers	(2,000 - 150 - 500) x 17%	230
Taxable goods from un-registered suppliers	Inadmissible	-
Exempt goods from registered suppliers	Inadmissible	-
Goods destroyed	(45 x 17%)	(8)
Sales tax on franchise service	Inadmissible	-
		222

Apportionment of input tax

	Turnover	Common Input
Taxable local supplies	4,415	175
Zero rated supplies (500 + 700)	1,200	47
	5,615	222

Note:

- Free replacements are ignored in calculation

Chapter 25: Numerical Questions on Sales Tax by ICAP

Answer-20

Faiz Associates Computation of Sales Tax Payable / Refundable For the tax period January 2018

Rs. in 000
751

Calculation of tax liability

Output tax			
Less: Input tax (lower of)			
- Actual input tax	175		
Add: b/f input	265		
	440		
- 90% of output (751 x 90%)	676	(440)	
		311	
Further tax @ 3% of sales to un-registered	(1,180 x 3%)	35	
Tax Payable to Government		346	
Refundable against zero rated supplies			47

Calculation of Output

Sales to un-registered persons		1,180
Taxable goods to un-registered customers	(1,100 + 80)	
Sales to persons other than un-registered		3,335
Taxable goods to registered customers	(3,450 - 80 - 500 + 600 - 450 + 540 - 225)	4,515
		(100)
Less: Sale return		4,415
Tax @ 17%		751

Calculation of Input tax

Taxable goods from registered suppliers	(2,000 - 150 - 500) x 17%	230
Taxable goods from un-registered suppliers	Inadmissible	-
Exempt goods from registered suppliers	Inadmissible	-
Goods destroyed	(45 x 17%)	(8)
Sales tax on franchise service	Inadmissible	-
		222

Apportionment of input tax

	Turnover	Common Input
Taxable local supplies	4,415	175
Zero rated supplies (500 + 700)	1,200	47
	5,615	222

Note:

- Free replacements are ignored in calculation

Answer-21

Mr. Abid Khan
Sales tax liability
for the Month of August 20X8

Output tax			
Less: Input tax (lower of:)	(23,493 x 17%)		
- Actual			Rs. In '000'
+ brought forward input			3,994
- 90% x 3,994		3,753	
		595	
		4,348	
Less: Input fixed asset		3,595	(3,595)
			399
Further tax @ 3% on sale to unregistered on 10,150			(378)
			21
Input tax to be carried forward			305
Refundable against zero rate	(4,348 - 3,595)		326
	(799 + 81)		753
			880

Workings

(W-1) Input Tax

Pack material un-registered of 9,500
Electricity bill

(W-2) Apportionment of input tax

	Turnover	Input tax (Other than fixed assets)	Input tax (Fixed assets)
Taxable local supplies			
Zero-rated	23,493	(249 + 3,504) = 3,753	378
Exempt	5,000	(53 + 746) = 799	81
	4,500	(48 + 255) = 303	-
	32,993	350	

(W-2.1)

- Purchase for taxable sale = 25,000 x 17% = 4,250

For taxable @ 17%

$$4,250 \times \frac{23,493}{23,493 + 5,000} = 3,504$$

For zero rate sale

$$4,250 \times \frac{5,000}{23,493 + 5,000} = 746$$

- Purchases for exempt sale = 1,500 x 17% = 255

(W-2.2)

Input plant = 2,700 x 17% = 459

For taxable @ 17%

$$459 \times \frac{23,493}{23,493 + 5,000} = 378$$

For zero rate sale

$$459 \times \frac{5,000}{23,493 + 5,000} = 81$$

(W-3) Taxable Sales

To Un-registered
Un-registered

To Registered

Taxable Supplies
(including 2,500 sale)
Electric toasters supply

Less: Sales return

(12,618 - 4,225)

$(\frac{4,225}{65} \times 90)$

10,150

8,393

5,850

(900)

23,493

Answer-22

Sales tax payable/refundable
For the tax period February 2019

	A	B	C	Rs. '000' D
Output tax (1,200 x 17%): (1,800 x 17%): (1,000 x 17%)	204	-	306	170
Less: input tax (Lower of)	170	-	-	-
- Actual	184	-	275	153
- 90% of output	34	-	306	170
Less: Input tax on fixed asset	34	-	306	(236)
Sales tax to be carried forward	-	-	24	(66)
Further tax @ 3% on sale to un-registered (800 x 3%)	34	-	330	-
Sales tax Payable	-	-	-	-
Input tax to be carried forward	42	255 (W-2)	-	-
Refundable against zero rated	-	-	-	-

(W-1) Apportionment of input tax of Mr. A

Taxable local supplies
Zero rated supplies
Exempt

Turnover	Common Input
1,200	170
300	42
300	43
<u>1,800</u>	<u>255</u>

(W-1.1) Input tax of Mr. A

Purchases from reg. person

(1,500 x 17%)

255

(W-2) Input tax of Mr. B

Purchases from reg. person

(1,500 x 17%)

255

(W-3) Apportionment of input tax of Mr. D

Taxable local supplies
Exempt

Turnover	Common Input on F.A
1,000	236
800	189
<u>1,800</u>	<u>425</u>

Chapter 25: Numerical Questions on Sales Tax by ICAP

(W-3.1) Input tax on Machine

Input tax on Machine

(2,500 x 17%)

425

Answer-23

MH Associates Sales tax Liability for the month of August 20X9

Calculation of tax liability

			Rs. in "000"
Output tax			
Less: Input tax (lower of)	(9,025 x 17%)		1,534
- Actual input tax b/f input		853	
		255	
- 90% of output		1,108	
	(1,534 x 90%)	1,381	(1,108)
Less: Input tax on fixed asset			426
			(153)
Further tax @3% of sale to un-registered			273
Tax Payable	(450 x 3%)		14
Input to be carried forward			287
			-

(W-1) Calculation of input tax

		Rs. in "000"
Purchase from registered person		
Exempt goods from registered supplier of 1,500	(6,480 - 1,200 - 1,800) x 17%	592
Taxable goods from un-registered supplier of 1,100		-
40% of goods delivered (1,800 x 40%) = 720 x 17%		-
Discrepancy indicated by CREST for 1,200		122
Input tax not claimed in March 20X9		-
Sale tax on electricity bill		120
		95
		929

(W-2) Apportionment of input tax

	Turnover	Input tax (Other)	Input tax (Machine)
Taxable local supplies	9,025	853	153
Exempt	800	76	204
	9,825	929	

(W-2.1) Machine (Specific input)

Machine A (for taxable supplies)	(900 x 17%)	153
Machine B (for exempt supplies)	(1,200 x 17%)	204

(W-3) Calculation of output tax

		Rs. '000'
To Registered Customer:		
Taxable supplies - registered	(7,850 - 270)	7,580
Invoice		720
Sale to end consumer		365
Less: Sale return		(90)
To Unregistered Customer:		
Taxable supplies - un-registered	(815 - 365)	450
		9,025

Answer-24

Taha
Sales tax payable (Refundable)
for the tax period Feb 2020

Output tax (2,000,000 x 17%)

Less: Input tax (lower of:)

- Actual

- 90% x 340,000

306,000

Add: Further tax @ 3% on un-registered sales (2,000,000 x 3%)

Sales tax payable

Refundable against exports

Input tax to be carried forward

(W-2.1)

Rupees
340,000

(-)

340,000

60,000

400,000

337,302

(W-1) Input Tax (Other than Fixed Assets)

Taxable supplies from unregistered person of 3,500,000

(W-2) Apportionment of input tax

Taxable local supplies

Zero-rated

Exempt

Turnover

2,000,000

2,500,000

3,800,000

8,300,000

**Input tax
(Fixed assets)**

-

337,302

512,698

(W-2.1) Machine input

Machine input

(5,000,000 x 17%)

850,000

For Zero rated sale

2,500,000 x [850,000/(2,500,000+3,800,000)]

337,302

For Exempt sale

3,800,000 x [850,000/(2,500,000+3,800,000)]

512,698

Shan
Sales tax payable
For the tax period February 2020

		<u>Rupees</u>
Output tax	(10,000,000 x 17%)	1,700,000
Less: Input tax (lower of)		
- Actual		1,206,452
- 90% of 1,700,000		<u>1,530,000</u>
		(1,206,452)
		493,548
Less: Input tax on machine		<u>(1,020,000)</u>
Sales tax to be carried forward		<u>(526,452)</u>
Input tax to be carried forward		-

(W-1) Input tax**Other than fixed assets**

Taxable supplies from registered person	(11,000,000 x 17%)	1,870,000
Exempt goods of 3,000,000		-
		<u>1,870,000</u>

(W-2) Apportionment of input tax

	<u>Turnover</u>	<u>Input tax (Other than fixed assets)</u>	<u>Input tax (Fixed assets)</u>
Taxable local supplies	10,000,000	1,206,452	1,020,000
Zero-rated	-	-	-
Exempt	<u>5,500,000</u>	<u>663,548</u>	-
	<u>15,500,000</u>	<u>1,870,000</u>	

(W-2.1) Machine input

Machine input	(6,000,000 x 17%)	1,020,000
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JF Associates
Sales tax Liability
for the month of August 2020

Output tax
Less: Input tax (lower of)
- Actual input tax
b/f input

(9,230 x 17%)

1,372
425

1,797

$$\begin{array}{r} 1,412 \\ \underline{(1,412)} \\ 157 \\ \underline{(231)} \\ (74) \end{array}$$

Less: Input tax on fixed asset
Sales tax to be carried forward

(1,271 x 3%)

Further tax @3% of sale to un-registered
Tax payable to Government
Input tax to be carried forward (1,797 - 1,412)
Refundable against exports (74 + 170)

Rs. in "000"
1,258

(W-1) Calculation of input tax

Other than machine

Other than machine
Taxable goods from registered persons (7,400 x 17%)
Taxable goods from unregistered persons of 1,100

Taxable goods from registered persons (7,400 x 17%)
Taxable goods from unregistered persons of 1,100
Total taxable goods of March 2020 (1,200 x 17%)

Input tax on invoice of March 2020 (1,200 x 17%)

Input tax on electricity bill

1,587

(W-2) Apportionment of input tax

Taxable local supplies
Exports
Exempt (1,000 - 50)

Turnover	Input tax (Other)	Input tax (Machine)
9,230	1,372	231(W-2.1)
500	74	170 (W-2.1)
950	141	24 (W-2.1)
10,680	1,587	

(W-2.1) Machine (Specific input)

(W-2.1) Machine (Specific Input)
Machine A (for local taxable supplies & exempt)
Machine B (for export supplies)

(1,500 x 17%)	255
(1,000 x 17%)	170

Allocation of Machine A input

For local taxable supplies
For exempt sale

$$\frac{255 \times [9,230 / (9,230 + 950)]}{255 \times [950 / (9,230 + 950)]}$$
231
24

(W-3) Calculation of taxable sale

To other than unregistered:

To other than unregistered:
Taxable goods to registered persons (7,500 - 560 - 590)
Taxable goods to unregistered (560/80) x 90

Goods sold at discount $(560/80) \times 90$

Goods sold at discount $(500/80) \times 20$
Correct value of invoice erroneously issued

Sale to end consumer

6,350
630
950
29

To unregistered:

To unregistered:
Taxable goods (1,300 - 29)

$$\begin{array}{r} 1,271 \\ \hline 9,230 \end{array}$$

Answer-26

Hadi Associates
Sales tax payable (Refundable)
for the tax period February 2021

	(3,905,000 x 17%)		<u>Rupees</u> 663,850
Output tax			
Less: Input tax (lower of:)			
- Actual	212,662		
Add: b/f input	415,000		
	627,662		
- 90% x 663,850	597,465		(597,465)
			66,385
Less: Input on fixed assets			(307,054)
Sales tax to be carried forward			(240,669)
3% further tax on un-registered sales (920,000 x 3%)			27,600
Payable to government			27,600
Refundable against exports	(W-2.1) (81,688 + 117,946)		199,634
Input tax to be carried forward	(627,662 - 597,465)		30,197

(W-1) Calculation of Input tax

Input tax other than fixed assets

Taxable goods from registered suppliers (1,890,000 - 100,000 - 85,000 - 50,000) x 17%	281,350
Taxable goods from un-registered suppliers of Rs. 1,000,000 - inadmissible	-
Packing material from unregistered suppliers of Rs. 445,000	-
Taxable goods from Haq Enterprises of Rs. 100,000	-
Taxable goods purchased in cash of Rs. 85,000	-
Taxable goods not disclosed by supplier in return of Rs. 50,000	-
Tax on electricity bill	-
	13,000
	<u>294,350</u>

Input tax on machine

(2,500,000 x 0.17)

425,000

(W-2) Apportionment of input tax

	<u>Turnover</u>	<u>Common Input</u>	<u>Machine input</u>
Taxable local supplies	3,905,000	212,662	307,054
Export supplies	1,500,000	81,688	117,946
	<u>5,405,000</u>	<u>294,350</u>	<u>425,000</u>

(W-3) Taxable sales

Sales to un-registered persons

Taxable goods to un-registered persons

(1,050,000 - 130,000)

920,000

Sales to persons other than un-registered

Taxable goods to registered persons
(including 120,000)

(2,630,000 - 225,000)

2,405,000

Taxable goods to associated undertaking

(225,000 + 75,000)

300,000

Taxable goods to end consumer

130,000

Taxable goods used for business promotion

150,000

2,985,000

3,905,000

Sections Index

Income Tax Ordinance, 2001

SECTIONS	Page #	SECTIONS	Page #	SECTIONS	Page #
S.2	Various pages	S.57	283	S.114	307
S.4	42	S.58	284	S.114A	310
S.5	41	S.59	284	S.115	310
S.7B	240	S.59A	246,284	S.116	312
S.8	42	S.60	35	S.116A	314
S.9	35	S.60A	36	S.117	314
S.10	35	S.60B	36	S.118	314
S.11	35	S.60C	68	S.119	316
S.12	81	S.60D	68	S.120	317
S.13	87	S.61	65	S.121	318
S.14	94,226	S.62	66	S.122	319
S.15	93,204	S.62A	66	S.122A	322
S.15A	206	S.63	67	S.122B	323
S.16	207	S.64D	69	S.122D	323
S.18	126	S.65	70,246	S.123	324
S.19	154	S.65F	69	S.124	331
S.20	127	S.65G	69	S.124A	332
S.21	127	S.66	39,209	S.125	324
S.22	134	S.67	39	S.126	324
S.23	136	S.68	40	S.127	326
S.24	140	S.69	40	S.128	326
S.25	143	S.70	40	S.129	327
S.26	143	S.71	41	S.130	327
S.27	143	S.72	41	S.131	328
S.28	147	S.73	41	S.132	328
S.29	143	S.74	29	S.133	329
S.32	145	S.75	148	S.134A	330
S.33	145	S.75A	153	S.136	331
S.34	145	S.76	148	S.174	351
S.35	146	S.77	152	S.177	354
S.37	220	S.80	31		
S.37A	223	S.81	30		
S.38	222	S.82	30		
S.39	236	S.83	30		
S.40	239	S.84	30		
S.41	274	S.85	53		
S.42	274	S.86	38		
S.43	274	S.87	38		
S.44	275	S.88	246		
S.45	275	S.89	39		
S.46	275	S.90	247		
S.47	275	S.91	39		
S.48	275	S.92	246		
S.49	276	S.98A	247		
S.50	276	S.98B	247		
S.51	101,276	S.98C	247		
S.53	277	S.102	101		
S.54	277	S.103	70		
S.55	277	S.104	284		
S.56	283	S.113	155		

Sales Tax

Sales Tax Act 1990		Sales Tax Rules 2006	
Sections	Page #	Rule #	Page#
1	437	1	466
2	437	2	466
3	444	4	466
3B	446	5	466
4	447	5A	467
5	447	6	468
6	448	7	468
7	448	8	468
8	449	9	468
8A	451	10	468
8B	451	11	468
9	452	12	469
10	452	14	472
11	452	17	472
11A	453	18	472
11B	453	20	473
13	454	21	474
22	454	22	475
23	455	23	476
24	455	25	477
25	455		
25A	456		
25AA	456		
26	457		
26AB	458		
27	458		
28	458		
29	451		
73			